Economic Investment Trust Limited

Annual Report

2018

Economic Investment Trust Limited

THE YEAR AT A GLANCE
92nd Annual Report

	2018	2017
Net equity value per Common Share [1]	**$ 142.92**	$ 151.98
Net investment income per Common Share [1]	**$ 2.22**	$ 2.00
Net income (loss) per Common Share	**$ (7.06)**	$ 16.26
Dividends per Common Share		
Quarterly	**$ 1.20**	$ 1.20
Additional [2]	**$ 0.80**	$ 1.34
Net assets [3]	**$ 802,572**	$ 853,474
Net investment income [1, 3]	**$ 12,488**	$ 11,257
Number of Common Shares outstanding at year end	**5,615,535**	5,615,535

[1] See Management's Discussion and Analysis for Use of Non-GAAP Measures.
[2] This additional dividend represents the distribution of the previous fiscal year's net investment income, after payment of quarterly dividends.
[3] In thousands of Canadian dollars.

The accompanying financial statements have been prepared under International Financial Reporting Standards ("IFRS").

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at Vantage Venues, Caledonia Room, 150 King Street West, 27th Floor, Toronto, Ontario, on Thursday, April 25, 2019 at 11:30 a.m. All shareholders are invited to attend.

BOARD OF DIRECTORS

DUNCAN N. R. JACKMAN
Chairman and President
Economic Investment Trust Limited

I. ANITA ANAND
Professor of Law
University of Toronto

WILLIAM J. CORCORAN
Corporate Director

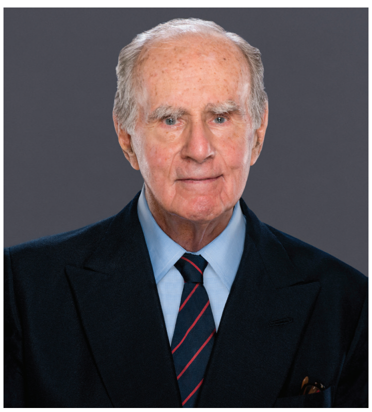
M. VICTORIA D. JACKMAN
Executive Director
Hal Jackman Foundation

JONATHAN SIMMONS
Chief Financial Officer
OMERS Administration Corporation

MARK M. TAYLOR
Treasurer
Canadian Northern Prairie Lands Company Inc.

KEVIN J. WARN-SCHINDEL
Managing Director
HarbourVest Partners, LLC

STUART D. WAUGH
Managing Partner
Northleaf Capital Partners



HONORARY DIRECTOR
THE HONOURABLE HENRY N. R. JACKMAN
Honorary Chairman of the Board
The Empire Life Insurance Company

OFFICERS

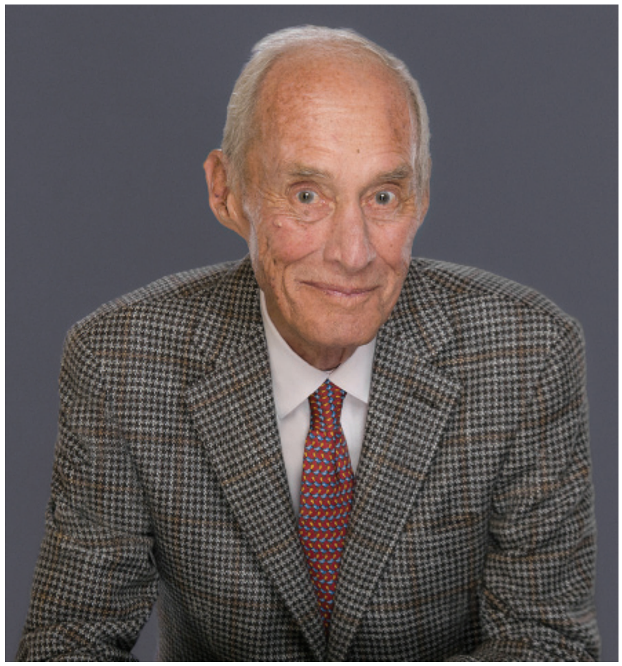
DUNCAN N. R. JACKMAN
Chairman and President

RICHARD B. CARTY
Corporate Secretary

SCOTT F. EWERT
Vice-President

FRANK J. GLOSNEK
Treasurer

IN MEMORIAM



We are deeply saddened by the recent passing of J. Christopher (Chris) Barron. Chris served as a Director of Economic Investment Trust Limited from 1991 to 2006 and from 2017 to 2019.

Chris gave himself fully to each of the many companies and organizations he was involved with over his storied and highly respected career. His wisdom and vast business experience have contributed greatly to our ongoing success; his warmth and quick wit will never be forgotten.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial performance and financial condition for the years ended December 31, 2018 and 2017. This MD&A should be read in conjunction with the December 31, 2018 year-end financial statements of Economic Investment Trust Limited ("Economic" or the "Company") which form part of this Annual Report dated February 13, 2019. These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants of Canada. The reporting currency for the Company is the Canadian dollar, and all amounts in the following discussion are in Canadian dollars.

This MD&A may contain certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Overview

Economic is a closed-end investment corporation, the shares of which trade on the Toronto Stock Exchange under the symbol "EVT". Economic is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The Company has been a closed-end investment corporation since 1927 and has never bought back its Common Shares. The Common Shares have traded at a discount to their net asset value, ranging from a 40% discount to a 15% discount over the past 10 years. Management believes that shareholders who have invested in the Common Shares of the Company recognize that the Common Shares of the Company usually trade at a discount to their net asset value.

Closed-end investment corporations have the following benefits: they often allow investors the opportunity to purchase assets at a discounted price; they have management expense ratios which are generally much lower than those for actively-managed, open-ended funds; and the management of a closed-end investment corporation's portfolio is not impacted by shareholder subscription or redemption activities.

Economic has no plans to become an open-ended investment fund.

The Company owns, directly and indirectly, long-term investments in the common shares of some publicly-traded Canadian companies, and a managed global investment portfolio of common shares of publicly-traded global companies.

The long-term investments consist primarily of the publicly-traded common shares of E-L Financial Corporation Limited ("E-L Financial"), Algoma Central Corporation ("Algoma"), a shipping company, and The Bank of Nova Scotia. At December 31, 2018, E-L Financial represented 40.5% (2017 – 41.6%) of total equity investments, Algoma 4.5% (2017 – 5.3%) and The Bank of Nova Scotia 6.0% (2017 – 6.6%). E-L Financial, Algoma and the Company are related parties. In management's view, these investments are consistent with the Company's investment strategy and contribute to achieving the investment objective. Further related party information is provided in Note 12 to the financial statements in this Annual Report and in the schedule of investment portfolio beginning on page 32.

E-L Financial operates as an investment and insurance holding company with two operating segments, E-L Corporate and The Empire Life Insurance Company ("Empire Life"). E-L Corporate's operations include the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and private companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

E-L Financial has a 52.2% (2017 - 51.9%) interest in a closed-end investment corporation, United Corporations Limited ("United"), which is an investment vehicle for long-term growth through investments in common equities. In addition, E-L Financial has a 36.8% (2017 - 36.3%) interest in Algoma and a 24.0% interest in Economic. E-L Financial also owns 99.3% of Empire Life which underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products in Canada. Each of E-L Financial, Empire Life, United and Algoma are related parties and are reporting issuers which trade on the Toronto Stock Exchange and have profiles on SEDAR.

The balance of Economic's investment portfolio is managed by Burgundy Asset Management Ltd. ("Burgundy"), a global equity manager based in Toronto. Burgundy manages the portfolio using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Burgundy's estimate of intrinsic value. The portfolio, of approximately 40 - 60 publicly-traded companies, invests primarily in mid to large capitalization companies which are publicly traded. At December 31, 2018, 99.4% (2017 – 96.7%) of the fair value of the global investment portfolio was made up of non-Canadian companies.

At December 31, 2018, approximately 52.2% (2017 – 54.6%) of the investment portfolio was held in long-term investments and 47.8% (2017 – 45.4%) was managed by Burgundy. Over time these percentages will vary based on the market value of the two portfolios and as a result of any purchases or sales of investments.

Investment Strategy

The objective of the Company is to earn an above-average rate of return, primarily through long-term capital appreciation and dividend income. Short-term volatility is expected and tolerated. Management remains confident that the Company's investment strategy will reward shareholders over the long term.

The investment portfolio of the Company comprises a mix of Canadian and foreign investments. Net equity value and net investment income may vary significantly from period to period depending on the economic environment and market conditions.

Use of Non-GAAP Measures

This MD&A contains references to "net equity value per Common Share" and "net investment income per Common Share". These terms do not have any standardized meanings in GAAP and therefore may not be comparable to similar measures presented by other companies. The Company believes that these measures provide information useful to our shareholders in evaluating the Company's financial results.

Net equity value per Common Share is used by investors and management as a comparison to the market price of its Common Shares to determine the discount or premium at which the Company's Common Shares are trading relative to the net equity value per Common Share.

Net investment income per Common Share is used by both investors and management to assess the approximate amount of dividends to be distributed on Common Shares.

Net equity value per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

	December 31 2018	December 31 2017
Net assets	**$ 802,572**	$ 853,474
Common Shares outstanding	**5,615,535**	5,615,535
Net equity value per Common Share	**$ 142.92**	$ 151.98

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net investment income per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Net income (loss)	**$ (58,456)**	$ 25,869	**$ (39,671)**	$ 91,337
Add (deduct):				
Other fair value changes in investments	**70,364**	(26,593)	**60,261**	(92,291)
Tax on other fair value changes in investments	**(9,323)**	3,524	**(8,111)**	12,229
Net change in refundable dividend taxes on hand	**5**	92	**9**	(18)
Net investment income[1]	**$ 2,590**	$ 2,892	**$ 12,488**	$ 11,257
Common Shares outstanding	**5,615,535**	5,615,535	**5,615,535**	5,615,535
Net investment income per Common Share[1]	**$ 0.46**	$ 0.51	**$ 2.22**	$ 2.00

[1] On an after-tax basis.

Net Equity Value per Common Share

The Company's net equity value per Common Share decreased to $142.92 at December 31, 2018 from $151.98 at the prior year end.

With dividends reinvested at month-end net equity values, the Company's net equity value return was negative 4.7% in 2018, compared to a positive return of 11.8% during 2017.

Long-term investments had a pre-tax negative return of 9.3% in 2018 compared to a return of 14.0% during 2017. On a pre-tax basis, the shares of E-L Financial had a negative return of 8.6% during 2018 (2017 – 12.1%), the shares of Algoma had a negative return of 18.5% (2017 – 33.6%), and the shares of the Bank of Nova Scotia had a negative return of 12.1% (2017 – 12.6%).

The global investment portfolio had a pre-tax return, gross of fees, of 0.5% during 2018 versus a comparative return of 11.5% during 2017.

As the Company is a taxable Canadian corporation, the Company's net equity value is net of a current income tax provision on net investment income and realized gains on investments, and net of a deferred income tax provision on its change in unrealized appreciation of investments.

In Canadian dollar terms, total returns (capital gains plus dividends), for Economic's net equity value and stock market indices, were as follows:

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
	(%)	
Economic net equity value	(4.7)	11.8
S&P/TSX Composite Index	(8.9)	9.1
MSCI All Country World Index	(1.5)	15.5
S&P 500 Index	4.0	13.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Equity Value per Common Share

Growth in Net Equity Value ("NAV")

Set out below is a table that shows annual growth in NAV in each of the past 10 years:

Annual growth in NAV*

	NAV per Common Share	Annual Growth %
2009	$ 86.24	18.2
2010	91.65	7.0
2011	74.81	(17.8)
2012	83.98	13.9
2013	123.60	48.8
2014	122.43	4.5
2015	132.62	9.5
2016	138.26	5.4
2017	151.98	11.8
2018	142.92	(4.7)

Compound annual growth*

2009 - 2018 - 10 years	8.5

*This chart was drawn from the individual annual reports and any NAV amounts prior to 2014 have not been restated for any subsequent changes in accounting policies.

Operating Results - 2018

Net income

The Company reported a net loss of $39,671,000 in 2018 compared to net income of $91,337,000 in 2017. On a per Common Share basis, earnings per share decreased to a net loss of $7.06 in 2018 compared to net income of $16.26 for 2017.

The other fair value changes in investments was a loss of $60,261,000 in 2018 compared to a gain of $92,291,000 for 2017.

The other fair value changes for long-term investments was a loss of $52,597,000 in 2018 compared to a gain of $54,742,000 for 2017. The Company's year-to-date long-term investment loss was comprised primarily of losses in E-L Financial of $34,125,000, Algoma of $9,749,000 and The Bank of Nova Scotia of $9,548,000.

The global investment portfolio had an other fair value loss of $7,664,000 in 2018 compared to a gain of $37,549,000 in 2017. During the fourth quarter of 2018, global equity markets retreated resulting in a net fair value loss for the global investment portfolio. Investment losses for the fourth quarter and year to date, were partly offset by foreign currency movements mostly impacted by a weaker Canadian dollar.

The 2018 loss for the global investment portfolio included an investment gain from North America of $10,058,000 offset by investment losses from the United Kingdom of $10,584,000, Brazil $6,047,000 and Europe $1,159,000.

The top three contributors included Microsoft Corporation, AutoZone, Inc., and Colruyt S.A. The largest detractors to the investment performance included British American Tobacco plc, Cielo S.A., and Philip Morris International Inc.

The Company's net realized gain, all of which relates to the global investment portfolio, was $29,357,000 in 2018 compared to $15,455,000 in 2017. The largest contributors to 2018 realized gains included Union Pacific Corporation, Cisco Systems, Inc., Microsoft Corporation, and McDonald's Corporation with realized gains totaling $19,082,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results - 2018 (continued)

Net investment income

The Company's net investment income in 2018 increased to $12,488,000 compared to $11,257,000 in 2017, an increase of 10.9%. On a per Common Share basis, net investment income for the year increased to $2.22 in 2018 compared to $2.00 in 2017.

Foreign dividend income in 2018 increased by 14.9% to $10,642,000 from $9,262,000 in 2017. Foreign dividend income is impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

Canadian dividend income in 2018 increased by 3.1% to $7,097,000 from $6,886,000 in 2017. The increase year over year for both periods resulted primarily due to an increase in dividends received from The Bank of Nova Scotia and Algoma.

Interest and securities lending income increased in 2018 to $521,000 from $261,000 in 2017. The increase over the prior year resulted primarily from a higher average balance of short-term investments.

The expenses of the Company increased by 6.6% to $3,810,000 from $3,575,000 in 2017. The majority of the year-over-year increase relates to increased investment management fees as a result of an increase in the average market value of the global investment portfolio. The Company's management expense ratio increased in 2018 to 0.45% of average net assets compared to 0.43% of average net assets in the prior year. The management expense ratio is determined using total expenses as an annualized percentage of average monthly net asset values during the period. There are no investment management or administrative fees charged on the Company's long-term investments.

Operating Results - Fourth Quarter, 2018

The Company's net equity value per Common Share decreased to $142.92 at December 31, 2018 from $153.63 at September 30, 2018. With dividends reinvested at month-end net equity values, the Company's net equity value return was negative 6.8% in the fourth quarter of 2018 compared to a return of 3.1% for the same period in 2017.

On a pre-tax basis, the shares of E-L Financial had a negative return of 9.5% during the fourth quarter of 2018 compared to a negative return of 3.5% in 2017, the shares of Algoma had a negative return of 1.7% (2017 – 33.3%) and the shares of The Bank of Nova Scotia had a negative return of 10.5% (2017 – 2.1%), respectively.

The global investment portfolio had a pre-tax return, gross of fees, of negative 5.7% in the fourth quarter of 2018 versus a return of 7.1% for the same period in 2017.

In Canadian dollar terms, in the fourth quarter of 2018, the S&P/TSX Composite Index decreased 10.1%, the MSCI All Country World Index decreased 7.3% and the S&P 500 Index decreased 8.9%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three-Year Results

A summary of various financial data for each of the last three years is as follows (in thousands of dollars, except per share amounts):

	2018	2017	2016
Other net fair value changes in investments[1]	**$ (52,150)**	$ 80,062	$ 29,027
Other net fair value changes in investments per Common Share[1]	**(9.28)**	14.26	5.17
Total assets	**872,016**	933,126	846,924
Net investment income[1, 2]	**12,488**	11,257	10,905
Net investment income per Common Share[2]	**2.22**	2.00	1.94
Dividends per Common Share:			
Quarterly	**1.20**	1.20	0.60
Additional	**0.80**	1.34	0.85

[1] On an after-tax basis.
[2] See Use of Non-GAAP Measures.

Economic's investment portfolio is affected by equity markets, stock selection and currency movements.

In 2018, the performance of Economic was affected by negative returns from its long-term investments, in particular, E-L Financial, Algoma and The Bank of Nova Scotia. Long-term investments, in aggregate, had a total return of negative 9.3%. The global investment portfolio had a total return of 0.5%.

In 2017, the performance of Economic was favourably affected by strong returns from its long-term investments, in particular, E-L Financial, Algoma and The Bank of Nova Scotia. Long-term investments, in aggregate, had a total return of 14.0%. The global investment portfolio had a total return of 11.5%.

In 2016, the performance of Economic was favourably affected by strong returns from its long-term investments, in particular, E-L Financial and The Bank of Nova Scotia. Long-term investments, in aggregate, had a total return of 7.2%. The global investment portfolio had a total return of 4.5%. The return was negatively impacted, in part, by the rise of the Canadian dollar relative to other major foreign currencies.

The fluctuations in net investment income are due primarily to changes in dividend income that is earned by the Company, net of management fees. The dividend income is determined by the dividend policies of the corporations that are held as investments in our total investment portfolio.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Review - 2018 and 2017

The following tables summarize various financial results on a quarterly basis for the current and prior year:

	2018			
	Quarter ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(In thousands of dollars, except per share amounts)			
Net investment income[1, 2]	$ 3,007	$ 3,953	$ 2,938	$ 2,590
Other net fair value changes in investments[1]	(6,917)	8,565	7,243	(61,041)
Per Common Share:				
Net investment income[1, 2]	$ 0.54	$ 0.70	$ 0.52	$ 0.46
Other net fair value changes in investments[1]	(1.24)	1.53	1.30	(10.87)
Net income (loss)	(0.70)	2.23	1.82	(10.41)

	2017			
	Quarter ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(In thousands of dollars, except per share amounts)			
Net investment income[1, 2]	$ 3,030	$ 3,268	$ 2,067	$ 2,892
Other net fair value changes in investments[1]	53,981	15,088	(12,076)	23,069
Per Common Share:				
Net investment income[1, 2]	$ 0.54	$ 0.58	$ 0.37	$ 0.51
Other net fair value changes in investments[1]	9.62	2.68	(2.15)	4.11
Net income (loss)	10.16	3.26	(1.76)	4.60

[1] On an after-tax basis

[2] See Use of Non-GAAP Measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment income is derived primarily from dividend income that is earned by the Company. While North American investments usually pay regular quarterly dividends, investments outside of North America often pay less frequently. In general, dividends earned on investments outside of North America peak in the second quarter of the year. There is no guarantee that the Company will receive dividend income on its investments at current dividend payout levels.

Overall returns are determined by the performance of the Company's long-term investments and the performance of the global investment portfolio and may fluctuate significantly as illustrated by the past eight quarters. The returns generated within each portfolio may also not correlate with benchmark returns.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as at December 31, 2018. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2018.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2018. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2018. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks

As the Company is a closed-end investment corporation, Economic faces various risks arising from its investments. Under the supervision of the Board of Directors, management has developed policies to identify and monitor these risks. Note 4 to the December 31, 2018 financial statements provide disclosures surrounding risks arising from its financial instruments. These risks include market, liquidity, credit and certain concentration risks.

Market risk

The most significant risk that is faced by Economic is market risk which represents exposures to changes in the fair value of its investment portfolio. As the Company's investment portfolio is represented by Canadian and global equities, the value of its investments will vary from day to day depending on a number of market factors including economic conditions, global events, market news, and on the performance of the issuers of the securities in which the Company invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities. As of December 31, 2018, 25% (2017 – 24%) of the investment portfolio including cash and cash equivalents was denominated in U.S. dollars, 7% (2017 – 7%) Euro, 5% (2017 – 5%) British pound, 4% (2017 – 3%) Swiss franc, 4% (2017 – 3%) Japanese yen, and 1% (2017 – 1%) Brazilian real.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Concentration risk

Concentration risk exists when a significant portion of the equity investment portfolio is invested in a small number of companies or geographical areas. Concentration reduces the diversification of the investment portfolio and may result in greater volatility. At December 31, 2018, the Company's carrying value of its direct and indirect investment in E-L Financial of $341,536,000 (2017 - $375,750,000) represents 40.5% (2017 – 41.6%) of Economic's total equity investments. E-L Financial is subject to market risks as its investing activities are influenced by market price and interest rate risk. E-L Financial's subsidiary, Empire Life, is impacted by a number of risks including investment, insurance, operational, competition, regulatory and other risks.

Credit risk

Economic participates in securities lending which could expose the Company to the risk of counterparty failure. RBC Investor Treasury Services ("RBCITS"), the Company's custodian, acts as lending agent. RBCITS is responsible to return the borrowed securities to the Company when required, and RBCITS indemnifies the Company in the event of borrower default. The Company has recourse to the Royal Bank of Canada in the event of a failure to indemnify by RBCITS.

The Company's exposure to risks is also addressed in the Company's Annual Information Form. Further information on risks related to E-L Financial are disclosed in its Annual Information Form available on www.sedar.com.

Share Data

At December 31, 2018, there are 5,615,535 Common Shares issued and outstanding and each share is entitled to one vote.

Liquidity and Capital Resources

The Company's dividend policy is to distribute annual net investment income in the form of dividends. The distributions are composed of quarterly dividends together with an additional dividend representing the balance of net investment income for the previous fiscal year. During the year, the Company paid quarterly dividends totaling $1.20 per Common Share and an additional dividend of $0.80 (2017 - $1.34) per Common Share.

An additional dividend of $1.02 per Common Share will be paid in the first quarter of fiscal 2019 along with the $0.30 quarterly dividend.

The Company's dividend policy is established by the Board of Directors at its discretion and is subject to change.

Related Party Transactions

The Company has investments in related parties (see Schedule of Investment Portfolio) with a fair value at December 31, 2018 of $440,372,000 (2017 - $492,968,000) representing 52.2% (2017 – 54.6%) of the total investments. Dividends from these companies for the year ended December 31, 2018 amounted to $6,943,000 (2017 - $6,673,000).

E-L Financial holds a 24% interest in the Company. Included in investment management and administrative costs are fees for administrative services paid to E-L Financial. These fees are calculated at 0.1% per annum of the fair value of the investments managed by the external investment manager and are paid monthly. The total fees for the year ended December 31, 2018 amounted to $503,000 (2017 - $480,000).

The ultimate controlling party of the Company and of these related parties is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical Accounting Estimates

The preparation of the financial statements require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and earnings. Note 2 to the financial statements describes the significant accounting policies and note 3 contains critical accounting estimates and judgments. In measuring the fair value of investments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate.

Changes in Accounting Policies

The Company adopted IFRS 9 – "Financial Instruments" for the reporting period commencing January 1, 2018. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities. The adoption of this IFRS standard has been applied retrospectively and did not result in a change to the measurement of financial instruments. The Company continues to classify its investments as fair value through profit or loss.

Additional Information

Additional information relating to Economic, including the Company's Annual Information Form, is available at www.sedar.com.

Economic's website, www.evt.ca, also provides further information on the Company, including historical information on the net equity value per Common Share which is updated weekly.

FINANCIAL HIGHLIGHTS

For each of the years in the five-year period ended December 31, 2018:

DATA PER COMMON SHARE	**2018**	2017	2016	2015	2014
NET EQUITY VALUE, beginning of year[1]	**$ 151.98**	$ 138.26	$ 132.62	$ 122.43	$ 124.69
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS					
Net investment income[1]	**2.22**	2.00	1.94	1.45	1.36
Other net fair value changes in investments	**(9.28)**	14.26	5.17	10.10	3.88
Net change in refundable dividend taxes on hand	**—**	—	(0.02)	—	0.15
	(7.06)	16.26	7.09	11.55	5.39
CASH DIVIDENDS TO COMMON SHAREHOLDERS					
Quarterly	**(1.20)**	(1.20)	(0.60)	(0.60)	(0.60)
Additional	**(0.80)**	(1.34)	(0.85)	(0.76)	(7.05)
	(2.00)	(2.54)	(1.45)	(1.36)	(7.65)
NET EQUITY VALUE, end of year[1]	**$ 142.92**	$ 151.98	$ 138.26	$ 132.62	$ 122.43

[1] Net investment income per Common Share is a Non-GAAP measure. See Management's Discussion and Analysis on page 6.

MANAGEMENT'S REPORT

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgment. The significant accounting policies which management believes are appropriate for the Company are described in Note 2 to the financial statements. Financial information disclosed elsewhere in the Annual Report is consistent with the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Board of Directors carries out its responsibilities principally through the Audit Committee. The Audit Committee reviews the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditor prior to recommending the audited financial statements and related disclosure for approval by the Board of Directors.

The shareholders of the Company appointed the external auditor, PricewaterhouseCoopers LLP. The external auditor audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out on the following page.

Duncan N.R. Jackman
Chairman and President

Frank J. Glosnek
Treasurer

February 13, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Economic Investment Trust Limited

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Economic Investment Trust Limited (the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of comprehensive income for the years then ended;
- the statements of changes in shareholders' equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (Continued)

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert D'Arolfi.

PricewaterhouseCoopers LLP

February 13, 2019
Toronto, Canada

Chartered Professional Accountants, Licensed Public Accountants

STATEMENTS OF FINANCIAL POSITION

	Year ended December 31	
	2018	2017
	(000's)	
ASSETS		
Cash and cash equivalents	**$ 17,359**	$ 5,773
Short-term investments	**7,864**	23,373
Investments (cost - $334,729; 2017 $303,539) (Notes 4, 6 and 12)	**844,264**	902,692
Receivable in respect of investments sold	**783**	—
Dividends and interest receivable	**1,211**	968
Other assets	**535**	320
	872,016	933,126
LIABILITIES		
Accrued expenses	**787**	751
Income taxes payable	**2,073**	399
Deferred tax liabilities (Note 8)	**66,584**	78,502
	69,444	79,652
Net assets	**$ 802,572**	$ 853,474
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	**$ 204,691**	$ 204,691
Share premium	**1,474**	1,474
Retained earnings	**596,407**	647,309
Total shareholders' equity	**$ 802,572**	$ 853,474

APPROVED BY THE BOARD:

DUNCAN N.R. JACKMAN

Director

JONATHAN SIMMONS

Director

(See accompanying notes)

STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31	
	2018	2017
	(000's)	
INCOME		
Dividends		
Foreign	**$ 10,642**	$ 9,262
Canadian (Note 12)	**7,097**	6,886
	17,739	16,148
Interest and securities lending income	**521**	261
Other fair value changes in investments (Note 9)	**(60,261)**	92,291
	(42,001)	108,700
EXPENSES		
Investment management and administrative costs (Note 12)	**3,050**	2,872
Directors' remuneration	**287**	273
Office and miscellaneous	**246**	239
Transfer, registrar and custody fees	**153**	133
Professional fees	**74**	58
	3,810	3,575
INCOME (LOSS) BEFORE INCOME TAXES	**(45,811)**	105,125
Provision for (recovery of) income taxes (Note 8)	**(6,140)**	13,788
NET INCOME (LOSS)	**$ (39,671)**	$ 91,337
EARNINGS (LOSS) PER COMMON SHARE - BASIC AND DILUTED (Note 13)	**$ (7.06)**	$ 16.26

(See accompanying notes)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Retained earnings	Total
		(000's)		
At January 1, 2018	**$ 204,691**	**$ 1,474**	**$ 647,309**	**$ 853,474**
Net loss for the year	**—**	**—**	**(39,671)**	**(39,671)**
Dividends (Note 11)	**—**	**—**	**(11,231)**	**(11,231)**
At December 31, 2018	**$ 204,691**	**$ 1,474**	**$ 596,407**	**$ 802,572**
At January 1, 2017	$ 204,691	$ 1,474	$ 570,235	$ 776,400
Net income for the year	—	—	91,337	91,337
Dividends (Note 11)	—	—	(14,263)	(14,263)
At December 31, 2017	$ 204,691	$ 1,474	$ 647,309	$ 853,474

STATEMENTS OF CASH FLOW

	Year ended December 31	
	2018	2017
	(000's)	
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income (loss)	**$ (39,671)**	$ 91,337
Adjustments for:		
Other fair value changes in investments	**60,261**	(92,291)
Net sales (purchases) of short-term investments	**15,509**	(13,793)
Purchases of investments	**(80,444)**	(36,587)
Proceeds from sale of investments	**78,611**	49,498
Dividends and interest receivable	**(243)**	(158)
Deferred taxes	**(11,918)**	10,203
Net change in other assets and liabilities	**712**	(1,114)
	22,817	7,095
Financing		
Dividends paid to shareholders	**(11,231)**	(14,263)
Net increase (decrease) in cash and cash equivalents	**11,586**	(7,168)
Cash and cash equivalents at beginning of the year	**5,773**	12,941
Cash and cash equivalents at end of the year (Note 7)	**$ 17,359**	$ 5,773
Additional information for operating activities:		
Interest received	**$ 376**	$ 145
Dividends received, net of withholding taxes	**16,217**	14,918
Income taxes paid, net of refunds	**2,973**	3,703

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018

1. Description of business

Economic Investment Trust Limited ("Economic" or the "Company") is a closed-end investment corporation. The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

Economic trades on the Toronto Stock Exchange under the symbol EVT. Economic is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The financial statements are presented in Canadian dollars which is the functional and presentation currency. These financial statements were approved by the Company's Board of Directors on February 13, 2019.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss ("FVTPL").

Accounting policy changes

The Company adopted IFRS 9 - "Financial Instruments" for the reporting period commencing January 1, 2018. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities. The adoption of this IFRS standard has been applied retrospectively and did not result in a change to the measurement of financial instruments. The Company continues to classify its investments as FVTPL.

Investment entity

The Company has determined that it meets the definition of an investment entity and as a result, it measures its investment in an associate at FVTPL. An investment entity is an entity that (i) obtains funds from one or more investors for the purposes of providing them with investment management services; (ii) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and (iii) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Financial instruments

The Company classifies its investments based on both the Company's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company holds investments in equities in which had previously been designated at FVTPL. On adoption of IFRS 9 these securities are mandatorily classified as FVTPL.

The Company's investments are measured at FVTPL. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The cost of each investment, realized and unrealized gains and losses from investment transactions are determined on an average cost basis.

Interest income from short-term investments is recognized at the effective interest rate. Dividends are recognized as income on the ex-dividend date. The cost of investments is determined using the average cost method.

Purchases and sales of financial assets are recognized at their trade date. Receivables in respect to investments sold and payables in respect to investments purchased represent unsettled investment transactions.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

2. Summary of significant accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For publicly listed investments, the Company uses the last traded market price where this price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The investments in private companies that are not listed on a stock exchange are measured using the adjusted net asset method. This method estimates the fair values of the underlying net assets and liabilities of the private companies and considers adjustments for characteristics such as a minority marketability discount and control block premiums. The changes in fair value of each private company are included in Fair value change in investments in the statement of comprehensive income.

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to financial assets and liabilities are included as a component of the Fair value change in investments in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and short term, highly liquid instruments with maturities of three months or less from the date of acquisition.

Short-term investments

Short-term investments include short-term, highly liquid instruments with maturities of greater than three months but less than a year from the date of acquisition.

Securities lending income

Securities lending income is recognized as earned.

Comprehensive income

The Company does not have any other comprehensive income and therefore comprehensive income equals net income which it reports in its statement of comprehensive income.

Earnings per share ("EPS")

Basic and diluted EPS is calculated by dividing the net income attributed to common shareholders of the Company by the weighted average number of Common Shares outstanding for the period. Refer to Note 13 for the calculation.

Income taxes

Income tax comprises both current and deferred tax. Income tax is recognized in the statement of income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the statements or income tax returns.

Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

2. Summary of significant accounting policies (continued)

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

The Company currently incurs withholding taxes imposed by certain countries on investment income. Such income is recorded on a gross basis and the related withholding taxes are reflected within the “Provision for income taxes” in the statement of comprehensive income.

Future Accounting Changes

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements.

3. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Company has made in preparing the financial statements:

Fair value of investments in private companies

The fair value of investments in private companies is measured using the adjusted net asset method which estimates the fair value of the underlying net assets and liabilities of the private companies. Refer to Note 5 for further details.

Deferred taxes

Estimates and assumptions are used primarily in the determination of the Company’s deferred tax liabilities, as the income tax rates used in determining the liability is dependent on an assumption as to when a deferred tax liability is expected to be realized.

4. Risks associated with financial instruments

The Company faces various risks arising from its financial instruments. Under the supervision of the Board of Directors, management has developed policies to identify, measure and monitor these risks. These risks and their management are described below:

Credit risk

Credit risk is the risk of financial loss resulting from a counterparty’s failure to discharge an obligation. The Company has a securities lending agreement with its custodian, RBC Investor & Treasury Services (“RBCITS”), whereby RBCITS lends securities to borrowers for a fee, which is shared with the Company. RBCITS receives fixed income and equities as collateral from borrowers, of at least 105% of the value of the securities loaned. In the event that the loaned securities are not returned to the Company by the borrower, RBCITS is responsible to restore the securities or pay to the Company the market value of the loaned securities. If the collateral is not adequate to pay the market value to the Company, RBCITS indemnifies the Company for the difference. The Company has recourse to the Royal Bank of Canada should RBCITS fail to discharge is obligations to the Company. At December 31, 2018 the Company had loaned securities with a fair value of approximately $116,428,000 (2017 - $92,487,000) and received approximately $122,249,000 (2017 - $97,111,000) in collateral. There was no significant exposure to credit risk to other receivable balances because of their short-term nature.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

4. Risks associated with financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Sufficient liquidity is maintained by regular monitoring of cash flow requirements. All liabilities, other than deferred tax liabilities, settle within three months of the year end.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices which includes interest rate risk, foreign currency risk and other price risk.

The Company is not subject to significant interest rate risk, as its only fixed-interest investments are short term in nature.

Currency risk arises from financial instruments denominated in foreign currencies. IFRS 7 - “Financial Instrument Disclosures” considers the foreign exchange exposures relating to non-monetary financial instruments to be a component of other price risk. The Company’s distribution of underlying currency risk exposure of investments is as follows:

	2018	2017
	(000’s)	
Canadian dollar	**$ 442,994**	$ 506,552
U.S. dollar	**221,463**	219,403
European Union euro	**63,504**	65,079
British pound sterling	**39,559**	45,532
Japanese yen	**35,222**	29,059
Swiss franc	**32,272**	26,780
Other	**9,250**	10,287
Investments	**$ 844,264**	$ 902,692

The Company is exposed to other price risk through its investment in equity securities. These risks are mitigated by using an investment manager that manages a diversified portfolio of securities.

A 10% fluctuation in global equity market prices, assuming all other factors are constant, would have an after-tax impact of approximately $73,240,000 (2017 - $78,309,000) on net income.

Concentration risk

Concentration risk exists when a significant portion of the investment portfolio is invested in a small number of companies or geographical areas. Concentration reduces the diversification of the investment portfolio and may result in greater volatility. At December 31, 2018, the Company’s fair value of its direct and indirect investment in E-L Financial of $341,536,000 (2017 - $375,750,000) represented 40.5% (2017 – 41.6%) of Economic’s total equity investments.

5. Financial instruments

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted unadjusted prices in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

5. Financial instruments (continued)

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires judgment by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Company utilizes the adjusted net asset method to derive the fair value of investments in private companies by reference to the fair value of its net assets and liabilities, along with assessing a minority marketability discount and control block premiums, if any. These adjustments are unobservable inputs for fair value measurement. The adjusted net asset method has been determined most appropriate for an investment whose value is mainly derived from the holding of assets rather than from deploying those assets as part of a broader business. The assets and liabilities of the private companies primarily include listed investments and deferred tax liabilities. The Company identified a range of possible valuations which market participants could apply to the private companies. This analysis resulted in a range of plus or minus 10% of the fair value of the underlying net assets with a best estimate adjustment of zero. Taking this into account, the Company applied no minority marketability discount or control premium to the net asset value estimate of the private companies. If the minority marketability discount was 10%, compared to a premium of 10%, with all other variables remaining constant, net assets would have decreased or increased by approximately $11,071,000 (2017 - $12,507,000).

At December 31, 2018, the Company had $716,650,000 (2017 - $758,516,000) of Level 1 and $127,614,000 (2017 - $144,176,000) of Level 3 equity investments. There were no transfers between Level 1, 2 or 3 equity investments during the current or prior year.

The fair value change in private company investments was a decrease of $16,564,000 (2017 - an increase of $14,315,000) recognized in the statement of comprehensive income. There were no purchases, sales, issues or settlements of these investments during either year.

All cash equivalents and short-term investments are Level 2 investments. The carrying values of cash and cash equivalents, receivable in respect of investments sold, dividends and interest receivable, accrued expenses and payable in respect of investments purchased, approximate their fair values due to their short-term nature.

6. Investment in associate

The Company has the following investment in an associate.

TGV Holdings Limited ("TGV") is a private investment company incorporated in Canada. The principal address of TGV is located at 165 University Avenue, Toronto, ON, M5H 3B8. TGV is an investment vehicle for long-term growth through investments in common equities and is consistent with the Company's investment strategy and contributes to achieving the investment objective. TGV is exposed to other price risk and concentration risk primarily through indirect investments in The Bank of Nova Scotia.

	Ownership interest %	Carrying value 2018	Carrying value 2017
		(000's)	
TGV Holdings Limited	47.7%	**$ 12,520**	$ 14,374

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

7. Cash and cash equivalents

Components of cash and cash equivalents for purposes of the statements of cash flows are as follows:

	2018	2017
	(000's)	
Cash	**$ 4,308**	$ 2,330
Cash equivalents	**13,051**	3,443
Total	**$ 17,359**	$ 5,773

The following table presents cash and cash equivalents classified by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
		(000's)		
December 31, 2018	**$ 4,308**	**$ 13,051**	**$ —**	**$ 17,359**
December 31, 2017	2,330	3,443	—	5,773

8. Income taxes

The Company is a public corporation under the Income Tax Act and is subject to tax at normal corporate rates on its net realized gains (Note 10) and on investment income other than taxable dividends received from corporations resident in Canada. Income taxes are assessed on income before income taxes. The current enacted corporate tax rates as they impact the Company stand at 26.5%. The effective tax rate varies from the combined statutory rate as follows:

	2018	2017
	(000's)	
Income taxes (recovery) at statutory rate	**$ (12,140)**	$ 27,858
Variance as a result of:		
Non-taxable portion of losses (gains)	**7,985**	(12,229)
Tax-paid dividends	**(1,881)**	(1,825)
Other	**(104)**	(16)
Provision for (recovery of) income taxes	**$ (6,140)**	$ 13,788

The Company's provision for income taxes includes provisions for current and deferred income taxes as follows:

	2018	2017
	(000's)	
Current	**$ 5,778**	$ 3,585
Deferred	**(11,918)**	10,203
Provision for income taxes	**$ (6,140)**	$ 13,788

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

8. Income taxes (continued)

Deferred tax liabilities are non-current and arise primarily from the timing of the inclusion of accrued dividends for income tax purposes and from differences between the carrying value and the tax cost of the investments. Details of the deferred tax liabilities are as follows:

	2018	2017
	(000's)	
Unrealized appreciation of investments	**$ 66,304**	$ 78,286
Accrued dividends receivable	**280**	216
Deferred tax liabilities	**$ 66,584**	$ 78,502

Deferred tax expense included in net income represents movements related to the following items:

	2018	2017
	(000's)	
Investments	**$ (11,982)**	$ 10,181
Accrued dividends	**64**	22
Deferred income taxes	**$ (11,918)**	$ 10,203

During the year ended December 31, 2018, the Company paid tax instalments and assessments totaling $3,001,000 (2017 - $3,703,000) and received income tax refunds totaling $28,000 (2017 - $nil). These items are classified as cash flows from operating activities in the cash flow statement.

The Company is also subject to a special tax of up to approximately 38% on taxable dividends received from corporations resident in Canada. This tax is refundable on payment of taxable dividends to shareholders at the rate of approximately 38% of such dividends paid. The accumulated amount of refundable dividend tax at December 31, 2018 amounts to approximately $104,000 (2017 - $95,000).

9. Other fair value changes in investments

The other fair value changes in investments is comprised as follows:

	2018	2017
	(000's)	
Net realized gains	**$ 29,357**	$ 15,455
Net change in unrealized appreciation	**(89,618)**	76,836
	$ (60,261)	$ 92,291

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

10. Net realized gain

The following are the details of the net realized gain during the years indicated:

	2018	2017
	(000's)	
Proceeds on sales of investments	**$ 78,611**	$ 49,498
Cost of investments, beginning of year	**303,539**	300,995
Cost of investments purchased during year	**80,444**	36,587
	383,983	337,582
Cost of investments, end of year	**334,729**	303,539
Cost of investments, sold during year	**49,254**	34,043
Net realized gain	**$ 29,357**	$ 15,455

11. Share capital

The Company's Articles of Continuance provide for an authorized capital of 200,000 Preferred Shares, issuable in series, and an unlimited number of Common Shares. Of the 200,000 Preferred Shares so authorized, 100,000 are designated as 5% Cumulative Preferred Shares Series A ("Preferred Shares Series A").

The capital stock account of the Company is as follows:

	Authorized	Issued and Outstanding	2018	2017
			(000's)	
Common Shares				
Issued and outstanding	unlimited	5,615,535	**$ 204,691**	$ 204,691

Dividends during the year were paid as follows:

	2018	2017
	(000's)	
On 5,615,535 Common Shares:		
Quarterly - $0.30 (2017 - $0.30) quarterly per share	**$ 6,739**	$ 6,739
Additional - $0.80 (2017 - $1.34) per share	**4,492**	7,524
Total	**$ 11,231**	$ 14,263

The Company's dividend policy is to distribute annual net investment income in the form of dividends. The distributions are composed of quarterly dividends together with an additional dividend representing the balance of net investment income for the previous fiscal year. During the year, the Company paid quarterly dividends totaling $1.20 (2017 - $1.20) per Common Share and an additional dividend of $0.80 (2017 - $1.34) per Common Share.

An additional dividend of $1.02 per Common Share, and the $0.30 regular quarterly dividend, were declared by the Board of Directors at its meeting on February 13, 2019, with a record and payable date of March 15, 2019 and March 29, 2019, respectively.

The Company's dividend policy is established by the Board of Directors at its discretion and is subject to change.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2018 (continued)

12. Related party information

The Company has investments in related parties (see Schedule of Investment Portfolio) with a fair value at December 31, 2018 of $440,372,000 (2017 - $492,968,000) representing 52.2% (2017 – 54.6%) of the total investments. Dividends from these companies for the year ended December 31, 2018 amounted to $6,943,000 (2017 - $6,673,000).

E-L Financial holds a 24.0% interest in the Company. Included in investment management and administrative costs are fees for administrative services paid to E-L Financial. These fees are calculated at 0.1% per annum of the fair value of the investments managed by the external investment manager and are paid monthly. The total fees for the year ended December 31, 2018 amounted to $503,000 (2017 - $480,000).

The ultimate controlling party of the Company and of these related parties is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

Compensation of key management personnel

Key management personnel comprise the directors of the Company and their remuneration is as follows:

	2018	2017
	(000's)	
Directors' compensation and other short-term benefits	**$ 287**	$ 273

13. Earnings per share ("EPS")

Basic and diluted EPS

EPS is calculated as follows (in thousands of dollars, except for weighted average number of Common Shares outstanding and per Common Share amounts):

	2018	**2017**
Net income (loss)	**$ (39,671)**	$ 91,337
Weighted average number of Common Shares outstanding	**5,615,535**	5,615,535
Basic and diluted earnings (loss) per Common Share	**$ (7.06)**	$ 16.26

14. Capital

The Company's capital comprises shareholders' equity, which is invested, directly and indirectly, in long-term investments in the common shares of some publicly-traded Canadian companies, and a managed diversified portfolio of common shares of publicly-traded global companies. The Company's strategy is to earn an above-average rate of return, primarily through long-term capital appreciation and dividend income. Short-term volatility is expected and tolerated. Management remains confident that the Company's investment strategy will reward shareholders over the long term. The Company monitors its capital via its assessment of shareholders' equity.

SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2018

Number of shares		Cost	Carrying value	% of Carrying value
		(000's)		
	North America			
	Canada			
2,126,380	Algoma Central Corporation [1]	$ 2,974	$ 26,962	
386,206	E-L Financial Corporation Limited [1]	26,116	285,796	
33,101	Ecando Investments Limited Classes A, B and common [1, 2, 3]	4,139	55,887	
176,414	The Fulcrum Investment Company Limited [1, 2]	464	14,859	
216,900	NVG Holdings Limited Classes B, C, D, E and common [1, 2, 4]	2,115	44,348	
148,370	Prairiesky Royalty Ltd.	3,285	2,622	
4,837	TGV Holdings Limited Class B [1, 2, 4, 5]	318	12,520	
		39,411	442,994	52.5
	United States			
211,555	Allison Transmission Holdings Inc.	8,020	12,673	
5,259	Alphabet Inc. Class A	7,043	7,497	
103,319	AmerisourceBergen Corporation	8,175	10,486	
31,883	Apple Inc.	3,961	6,861	
11,311	AutoZone, Inc.	10,155	12,936	
222,063	BB&T Corporation	8,796	13,123	
28,157	Becton, Dickinson and Company	2,696	8,655	
43,167	Facebook, Inc. Class A	8,472	7,720	
42,349	Gentex Corporation	795	1,168	
32,580	Harris Corporation	3,207	5,985	
71,924	Johnson & Johnson	6,168	12,662	
30,663	McDonald's Corporation	3,569	7,428	
111,019	Microsoft Corporation	4,563	15,383	
281,429	News Corporation Class A	4,751	4,358	
95,072	Northern Trust Corporation	6,543	10,841	
179,192	Oracle Corporation	7,935	11,037	
59,746	PepsiCo, Inc.	5,122	9,005	
65,536	Philip Morris International Inc.	6,286	5,969	
503,940	Sabre Corporation	16,219	14,877	
57,794	Texas Instruments Incorporated	5,986	7,451	
22,683	Union Pacific Corporation	2,084	4,277	
96,057	United Technologies Corporation	9,942	13,953	
183,651	Walgreen Boots Alliance Inc.	13,432	17,119	
		153,920	221,464	26.2
	Total North America	193,331	664,458	78.7

SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2018

Number of shares		Cost	Carrying value	% of Carrying value
		(000's)		
	Europe, excluding United Kingdom			
143,492	Brenntag AG	$ 9,492	$ 8,446	
211,429	Bureau Veritas S.A.	5,325	5,874	
79,580	Colruyt S.A.	4,280	7,733	
32,386	Hannover Rueckversicherung SE	2,340	5,951	
70,394	Heineken Holding N.V.	3,619	8,106	
16,938	Heineken N.V.	2,168	2,041	
95,157	Henkel AG & Co. KGaA	6,367	12,740	
82,749	Nestle S.A.	6,813	9,147	
131,395	Novartis AG	10,444	15,296	
161,306	Publicis Groupe	11,581	12,612	
23,221	Roche Holding AG	5,754	7,829	
		68,183	95,775	11.3
	United Kingdom			
274,922	British American Tobacco plc	14,842	11,986	
146,863	Bunzl plc	5,334	6,067	
56,228	Imperial Brands plc	2,193	2,331	
540,926	Informa plc	4,993	5,945	
88,533	Micro Focus International plc	2,748	2,135	
154,846	Unilever plc	6,355	11,095	
		36,465	39,559	4.7
	Japan			
196,900	Kakaku.com Inc.	3,768	4,745	
73,000	Kao Corporation	2,517	7,387	
9,000	Keyence Corporation	1,216	6,219	
197,300	Komatsu Ltd.	5,415	5,792	
19,000	Shin-Etsu Chemical Co., Ltd.	2,239	2,013	
36,100	Suzuki Motor Corporation	2,293	2,494	
148,800	Unicharm Corporation	3,335	6,572	
		20,783	35,222	4.2
	Brazil			
1,647,412	Cielo S.A.	10,946	5,148	0.6
	Cayman Islands			
4,297,000	Want Want China Holdings Ltd.	5,021	4,102	0.5
	Total investments	$ 334,729	$ 844,264	100.0

[1] These companies and Economic are related parties.
[2] Not listed on a stock exchange.
[3] The net assets of Ecando Investments Limited are invested primarily in shares of E-L Financial Corporation Limited.
[4] The net assets of NVG Holdings Limited and TGV Holdings Limited are invested primarily in the shares of The Bank of Nova Scotia.
[5] Investment in associate (see Note 6).

Economic Investment Trust Limited

Economic Investment Trust Limited was the first closed-end investment trust formed in Canada in the 1920's. The trust was sponsored by the chartered accounting firm of George A. Touche & Company.

The initial capitalization consisted of 32,250 shares issued in 1927 at $50 for a total of $1,612,500. In addition, $1,000,000 of 30 year 5% Collateral Trust Gold Bonds were issued in 1927, making the total amount of initial capital subscribed $2,612,500.

FINANCIAL RECORD - 1928 - 2018
(Unaudited)

Year Ended March 31	Total Net Assets at Carrying Value*	Funded Debt	Preferred Shares Outstanding**	Net Equity Behind Common Shares	Net Investment Income Available For Common Shares	Net Equity Value per Common Share=
1928	$ 2,776,143	$ 1,000,000	$ —	$ 1,776,143	$ 59,836	$ 0.81
1929	2,990,242	1,000,000	—	1,990,242	108,757	0.77
1930	3,064,552	1,000,000	—	2,064,552	132,219	0.76
1931	2,344,127	1,000,000	—	1,344,127	109,133	0.50
1932	1,412,796	990,000	—	422,796	69,803	0.16
1933	1,161,715	962,500	—	199,215	36,538	0.07
1934	1,808,188	959,500	—	848,688	29,378	0.31
1935	1,838,293	949,500	—	888,793	27,665	0.33
1936	2,353,313	949,500	—	1,403,813	39,181	0.52
1937	3,084,608	949,500	—	2,135,108	83,259	0.79
1938	2,028,005	1,000,000	—	1,028,005	89,611	0.38
1939	2,322,361	1,000,000	—	1,322,361	73,262	0.49
1940	2,779,329	1,000,000	—	1,779,329	64,964	0.66
1941	2,350,199	1,000,000	—	1,350,199	89,373	0.50
1942	2,145,074	1,000,000	—	1,145,074	86,242	0.42
1943	2,604,866	1,000,000	—	1,604,866	79,552	0.59
1944	2,889,930	1,000,000	—	1,889,930	91,189	0.70
1945	3,238,955	1,000,000	—	2,238,955	93,286	0.82
1946	3,896,005	1,000,000	—	2,896,005	83,594	1.07
1947	3,663,744	1,000,000	—	2,663,744	88,005	0.98
1948	3,522,969	1,000,000	—	2,522,969	103,576	0.93
1949	3,555,427	1,000,000	—	2,555,427	146,777	0.94
1950	3,835,291	1,000,000	—	2,835,291	164,712	1.04
1951	5,083,980	1,250,000	—	3,833,980	187,339	1.13
1952	5,242,547	1,250,000	—	3,992,547	224,680	1.18
Year End Dec. 31						
1953	5,197,984	1,250,000	—	3,947,984	189,902	1.16
1954	6,579,007	1,250,000	—	5,329,007	203,946	1.57
1955	8,972,261	2,000,000	—	6,972,261	244,543	1.71
1956	9,927,524	3,000,000	—	6,927,524	268,643	1.70
1957	8,299,244	2,940,000	—	5,359,244	267,456	1.30
1958	10,802,381	2,940,000	—	7,862,381	244,745	1.91
1959	11,125,555	2,920,000	—	8,205,555	250,593	1.99
1960	11,462,158	2,902,500	—	8,559,658	279,614	2.06
1961	15,222,285	2,509,500	—	12,712,785	348,260	2.41
1962	15,959,655	2,000,000	2,100,000	11,859,655	373,627	2.11
1963	17,633,299	2,000,000	2,100,000	13,533,299	395,390	2.41
1964	20,955,088	—	5,250,000	15,705,088	426,318	2.80
1965	21,897,735	—	5,250,000	16,647,735	457,768	2.97
1966	19,613,106	—	5,250,000	14,363,106	487,222	2.56
1967	23,076,097	—	5,128,462	17,947,635	540,082	3.20
1968	27,392,675	—	5,061,263	22,331,412	490,882	3.98
1969	25,942,615	—	5,061,263	20,881,352	518,281	3.72

FINANCIAL RECORD - 1928 - 2018 (continued)
(Unaudited)

Year Ended Dec 31	Total Net Assets at Carrying Value*	Funded Debt	Preferred Shares Outstanding**	Net Equity Behind Common Shares	Net Investment Income Available For Common Shares	Net Equity Value per Common Share=
1970	$ 24,365,591	$ —	$ 5,061,263	$ 19,304,328	$ 557,159	$ 3.44
1971	27,254,532	—	5,056,013	22,198,519	540,382	3.95
1972	34,888,401	—	5,056,013	29,832,388	594,727	5.31
1973	32,612,656	—	5,056,013	27,556,643	621,910	4.91
1974	24,135,473	—	5,024,513	19,110,960	726,197	3.40
1975	26,585,662	—	4,870,950	21,714,712	863,375	3.87
1976	31,637,836	3,000,000	4,738,387	23,899,449	875,571	4.26
1977	36,995,088	3,000,000	4,685,677	29,309,411	901,695	5.22
1978	47,494,243	4,000,000	4,622,677	38,871,556	1,252,333	6.92
1979	57,999,880	4,000,000	4,526,340	49,473,540	1,324,406	8.81
1980	76,697,109	4,000,000	4,375,665	68,321,444	2,194,507	12.17
1981	64,064,872	4,000,000	4,239,165	55,825,707	1,639,037	9.94
1982	68,178,899	4,000,000	4,104,503	60,074,396	2,020,002	10.70
1983	89,218,448	4,000,000	3,973,253	81,245,195	1,999,146	14.47
1984	92,329,348	4,000,000	3,792,915	84,536,433	2,300,654	15.06
1985	110,213,106	4,000,000	3,588,690	102,624,416	2,255,834	18.28
1986	116,528,995	—	3,582,600	112,946,395	3,010,235	20.11
1987	107,137,081	—	3,388,350	103,748,731	3,262,872	18.48
1988	117,278,175	—	3,388,350	113,889,825	4,057,330	20.28
1989	138,902,425	—	3,209,850	135,692,575	11,033,069	24.16
1990	111,688,074	—	3,078,600	108,609,474	4,507,819	19.34
1991	121,167,500	—	2,947,350	118,220,150	3,686,237	21.05
1992	118,601,216	—	2,816,100	115,785,116	4,425,086	20.62
1993	160,510,602	—	2,684,850	157,825,752	4,132,163	28.11
1994	157,005,838	—	2,553,600	154,452,238	3,607,944	27.50
1995	173,784,673	—	2,411,850	171,372,823	3,707,690	30.52
1996	220,022,041	—	2,267,475	217,754,566	4,229,442	38.78
1997	315,642,038	—	2,151,975	313,490,063	4,496,004	55.82
1998	312,297,757	—	1,957,725	310,340,032	5,020,547	55.26
1999	335,118,175	—	1,847,475	333,270,700	4,053,649	59.35
2000	409,292,748	—	1,758,225	407,534,523	4,681,449	72.57
2001	374,087,462	—	1,600,725	372,486,737	5,039,506	66.33
2002	344,740,715	—	1,539,038	343,201,677	4,380,966	61.12
2003	407,910,297	—	1,528,538	406,381,759	4,658,868	72.37
2004	459,289,335	—	1,523,288	457,766,047	8,655,782	81.52
2005	560,240,525	—	1,523,288	558,717,237	5,671,936	99.49
2006	691,296,065	—	404,250	690,891,815	7,241,971	123.03
2007	636,213,949	—	404,250	635,809,699	7,938,813	113.22
2008	413,157,193	—	404,250	412,752,943	8,582,896	73.50
2009	484,281,125	—	—	484,281,125	6,032,950	86.24
2010	514,671,117	—	—	514,671,117	5,374,380	91.65
2011	420,120,642	—	—	420,120,642	6,446,173	74.81
2012	471,609,113	—	—	471,609,113	6,367,642	83.98
2013	694,064,708	—	—	694,064,708	42,951,106	123.60
2014	687,494,354	—	—	687,494,354	7,619,908	122.43

FINANCIAL RECORD - 1928 - 2018
(Unaudited)

Year Ended Dec 31	Total Net Assets at Carrying Value*	Funded Debt	Preferred Shares Outstanding**	Net Equity Behind Common Shares	Net Investment Income Available For Common Shares	Net Equity Value per Common Share=
2015	$ 744,706,000	$ —	$ —	$ 744,706,000	$ 8,129,097	$ 132.62
2016	776,400,585	—	—	776,400,585	10,904,424	138.26
2017	853,473,765	—	—	853,473,765	11,256,055	151.98
2018	802,572,390	—	—	802,572,390	12,489,097	142.92

Net equity value per Common Share and net investment income available for Common Shares are non-GAAP measures.

This chart is drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

* Total assets at fair value less current liabilities exclusive of funded debt and preferred shares. For the years 1972 to 2000, total net assets include refundable capital gains taxes on hand.

** Preferred Shares at redemption price of $52.50 per share.

= As of December 31, 2018 there were 5,615,535 common shares outstanding. The calculation of net equity value is restated to reflect the following:

Historical Stock Dividends

Date	Stock dividend rate	Issue price	Date	Stock dividend rate	Issue price	Date	Stock dividend rate	Issue price
1951	5 for 2	Split	1988	1 for 63	$ 64.26	1997	1 for 13.3767	$ 160.52
1963	5 for 1	Split	1989	1 for 67	70.35	1998	1 for 29.0495	152.51
1982	1 for 8	$ 50.08	1990	1 for 56	82.32	1999	1 for 35.8532	144.13
1983	1 for 7	49.07	1991	1 for 30	64.80	2000	1 for 30.4794	148.13
1984	1 for 20	60.00	1994	1 for 27.7	91.41	2001	1 for 5.81549	172.72
1985	1 for 22	59.40	1995	1 for 28.78	86.34	2001	2 for 1	Split
1986	1 for 31	69.75	1996	1 for 38.4246	96.83	2001	1 for 24.1111	69.44
1987	1 for 17	71.40	1997	1 for 37.6442	117.45			

CORPORATE INFORMATION

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AUDITOR

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CUSTODIAN

RBC Investor & Treasury Services

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TORONTO STOCK EXCHANGE LISTING

Common Shares, ticker symbol EVT

NET EQUITY VALUE

The Company's net equity value per Common Share is published weekly on the Company's website.

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

Please refer to the "Contact Us" section of our website if you have questions or concerns regarding accounting or auditing matters.

WEBSITE

www.evt.ca