

**CHOU ASSOCIATES FUND  
CHOU ASIA FUND  
CHOU EUROPE FUND  
CHOU BOND FUND  
CHOU RRSP FUND**

Annual Report for Year ended December 31, 2015

**Illustration of an assumed investment of \$10,000 in Canadian dollars (Unaudited)**

**CHOU ASSOCIATES FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,502
Dec.31, 1988	12,001
Dec.31, 1989	14,244
Dec.31, 1990	12,722
Dec.31, 1991	15,681
Dec.31, 1992	18,817
Dec.31, 1993	21,863
Dec.31, 1994	21,300
Dec.31, 1995	27,904
Dec.31, 1996	34,235
Dec.31, 1997	48,035
Dec.31, 1998	59,187
Dec.31, 1999	53,489
Dec.31, 2000	57,967
Dec.31, 2001	70,397
Dec.31, 2002	91,504
Dec.31, 2003	94,773
Dec.31, 2004	103,319
Dec.31, 2005	117,462
Dec.31, 2006	139,511
Dec.31, 2007	125,258
Dec.31, 2008	88,553
Dec.31, 2009	114,854
Dec.31, 2010	136,916
Dec.31, 2011	113,776
Dec.31, 2012	144,446
Dec.31, 2013	204,142
Dec.31, 2014	228,754
Dec.31, 2015	<b><u>\$212,854</u></b>

NOTE: Rates of return are historical total returns, include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**PERFORMANCE OF THE FUNDS**  
(unaudited)

(Series A units)

December 31

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Chou Associates Fund</b>							
Total Return	-6.95%	12.06%	41.33%	26.96%	-16.90%	19.21%	29.70%
Management Expense Ratio (MER)	1.82%	1.81%	1.82%	1.86%	1.84%	1.79%	1.76%
Portfolio turnover rate	4.06%	7.73%	9.14%	16.58%	32.73%	11.29%	13.73%
Net Assets, end of the year (in millions)	\$513.7	\$557.5	\$502.4	\$ 426.9	\$ 391.9	\$ 530.6	\$ 497.5
<b>Chou Asia Fund</b>							
Total Return	5.49%	7.59%	23.90%	-1.80%	-4.55%	10.41%	21.71%
Management Expense Ratio (MER)	1.86%	1.80%	1.81%	1.89%	1.84%	1.81%	1.76%
Portfolio turnover rate	13.56%	0.00%	1.55%	4.53%	8.36%	9.48%	12.84%
Net Assets, end of the year (in millions)	\$40.1	\$39.2	\$ 39.7	\$ 37.7	\$ 48.1	\$ 62.1	\$ 63.2
<b>Chou Europe Fund</b>							
Total Return	1.87%	0.94%	41.35%	27.24%	-4.90%	-0.85%	34.67%
Management Expense Ratio (MER)	1.95%	1.90%	*0.13%	*0.20%	*0.17%	1.91%	1.80%
Portfolio turnover rate	0.00%	9.49%	0.00%	10.49%	14.53%	11.29%	40.06%
Net Assets, end of the year (in millions)	\$21.8	\$23.3	\$ 18.9	\$ 7.8	\$ 6.5	\$ 8.2	\$ 8.8
<b>Chou Bond Fund</b>							
Total Return	-3.58%	9.77%	23.75%	12.95%	-18.40%	32.69%	42.45%
Management Expense Ratio (MER)	1.45%	1.41%	1.52%	1.45%	1.47%	1.43%	1.39%
Portfolio turnover rate	4.44%	23.91%	13.42%	11.59%	33.88%	67.64%	61.00%
Net Assets, end of the year (in millions)	\$42.8	\$49.5	\$ 42.2	\$ 44.0	\$ 50.1	\$ 76.9	\$ 71.0
<b>Chou RRSP Fund</b>							
Total Return	-12.83%	14.20%	21.27%	34.15%	-20.73%	46.62%	27.80%
Management Expense Ratio (MER)	1.84%	1.81%	1.82%	1.87%	1.83%	1.80%	1.77%
Portfolio turnover rate	16.76%	4.77%	11.50%	1.43%	2.96%	9.94%	27.54%
Net Assets, end of the year (in millions)	\$104.1	\$128.5	\$ 122.3	\$ 112.3	\$ 100.0	\$ 149.6	\$ 119.0

\*Management fee after waivers and absorption

Please note that 'Net Assets' includes both Series A and Series F of the Funds

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**CHOU ASSOCIATES FUND**  
(unaudited)

March 18, 2016

Dear Unitholders of Chou Associates Fund,

After the distribution of \$0.07, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at December 31, 2015 was \$115.50 compared to \$124.19 at December 31, 2014, a decrease of 7.0%; during the same period, the S&P 500 Total Return Index increased 20.7% in Canadian dollars. In \$U.S., a Series A unit of Chou Associates Fund decreased 22.0% while the S&P 500 Total Return Index returned 1.4%.

The table shows our one-year, three-year, five-year, 10-year, 15-year and 20-year annual compound rates of return.

<b>December 31, 2015 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou Associates (\$CAN)	-7.0%	13.8%	9.2%	6.1%	9.1%	10.7%
S&P 500 (\$CAN)	20.7%	28.5%	20.2%	9.2%	4.4%	8.2%
Chou Associates (\$U.S.) <sup>1</sup>	-22.0%	1.9%	2.2%	4.3%	9.7%	10.6%
S&P 500 (\$U.S.)	1.4%	15.1%	12.6%	7.3%	5.0%	8.2%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**Factors Influencing the 2015 Results**

The weakness of the Canadian dollar against the U.S. dollar had a positive impact on the results of the Fund. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2014, one U.S. dollar was worth approximately \$1.16 Canadian, whereas one year later, on December 31, 2015, one U.S. dollar was worth approximately \$1.38 Canadian.

Positive contributors to the Fund’s performance during the period ended December 31, 2015 were the warrants of JPMorgan Chase & Company.

The Fund initiated equity security positions in Ascent Capital Group Inc. as well as in the second-lien term loan of Exco Resources 12.50%, due October 2020.

Securities of Resolute Forest Products Inc., Sears Holdings Corporation, Berkshire Hathaway Inc., Goldman Sachs Group Inc. and Nokia Corporation ADR were the largest negative contributors to the Fund’s performance during the same period.

The Fund decreased its holdings of Nokia Corporation ADR by 25%.

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<sup>1</sup>The alternative method of purchasing Chou Associates Fund in \$U.S. has been offered since September 2005. Performance for years prior to September 2005 is based on the \$U.S. equivalent conversion of the results of the Chou Associates Fund (\$CAN). The investments in the Chou Associates Fund (\$CAN) are the same as the investments in Chou Associates Fund (\$U.S.) except for the currency applied.

Olympus Re Holdings Limited was dissolved in February of 2015, and the Fund received a final liquidating distribution in the amount of \$643,930.

### Portfolio Commentary

Throughout 2015 and the early part of 2016, stock and bond markets were not cheap in general but some sectors were hit so badly that it makes sense for us to dig deeper when looking at them. For example, let's take a look at the oil and gas sector whose stocks and bonds have fallen dramatically over the past few years:

<i>(US\$ In millions, excluding stock, bond and commodity prices)</i>	Comstock		Exco	
	Resources ("CRK")		Resources ("XCO")	
	2013	2015	2013	2015
Stock Price <sup>1</sup>	\$18.29		\$5.31	
Enterprise Value <sup>1</sup>	\$1,668		\$2,999	
PV-10*	\$1,100	\$372	\$1,300	\$402
PV-10 Oil Price <sup>2</sup>	\$96.94	\$46.88	\$96.78	\$50.28
PV-10 Nat Gas Price <sup>2</sup>	\$3.67	\$2.34	\$3.67	\$2.59
Total Senior Bank Debt <sup>3</sup>		\$0		\$95
Total Outstanding Secured Bonds <sup>3</sup> (1st or 2nd Lien)		700M		700M
Current Price of Bonds		\$0.40		\$0.40
"Market Value" of Secured Bonds <sup>3</sup>		\$280		\$280
Total Sr Bank Debt + "MV" of Secured Bonds		\$280		\$375
Total Sr Bank Debt + "MV" of Secured Bonds as % of 2013 Enterprise Value		16.8%		12.5%
Current YTM of Secured Bonds <sup>4</sup> (1st or 2nd Lien)		42.6%		49.8%
Most Recent Company Information:	December 2015		February 2016	
<p>*PV-10 is the present value of estimated future oil and gas revenues, net of estimated direct expenses, discounted at an annual discount rate of 10%; per 2013 10K SEC Filing</p> <p>1) Per Bloomberg as of 12/31/2013</p> <p>2) Per 2013 10K SEC Filing, price used to calculate present value</p> <p>3) Per most recent SEC Filings and Company Presentations</p> <p>4) Per Bloomberg assuming current bond prices listed above</p>				

The first part of the table above shows the Enterprise Value at December 31, 2013 for two companies – Comstock Resources and Exco Resources. Enterprise Value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. Enterprise Value is a measure of what stock and bond investors think the entire company is worth.

Lower down on the table is a comparison of these companies' Enterprise Values at December 31, 2013 to the current price of their senior bank debt and their first or second lien bonds. The first or second-lien paper for these companies is currently yielding 42.6% – 49.8%, an attractive rate of return. When you purchase such a senior paper during normal times, the yield to maturity is frequently far below 10%. If the company goes bankrupt, and has little or no bank debt (which is senior to the first or second-lien bonds), most often the second-lien or even first-lien holders will end up owning 90% of the restructured company. Investors today can buy into these papers (first or second-lien) at a fraction of what Enterprise Values were at December 31, 2013 and also below that of the PV-10 value for the year ended 2015. For example, an investor can pay \$0.40 for a unit of CRK's secured bonds, which is equivalent to paying \$280 million in total for all its secured bonds. This is only 17% of CRK's Enterprise Value back in 2013. Although this is a simplified manner of looking at companies, it contains important and valuable information. These numbers are showing that regardless of what happens to the company going forward, you are more than likely to make a decent return on your investments.

We are looking to purchase more debt securities of oil and gas companies but our focus is on:

- 1) First or second-lien loans or notes;
- 2) Situations where the ability to add senior or issue pari-passu debt is significantly limited; and
- 3) If the company restructures or goes into bankruptcy, the recovery value of the bond is greater than the current price of the bond.

In the same vein, many stocks that we consider as undervalued went down even further. Let's discuss two of our biggest holdings, Resolute Forest Products and Sears Holdings.

### **Resolute Forest Products**

Resolute Forest Products (RFP) is primarily involved in newsprints, specialty papers, wood products and market pulp. As the downturn in global commodities intensified, RFP was not spared, hitting all four of the company's business segments. Management has concentrated on lowering the cost of every segment but this wasn't enough to compensate for the deterioration of prices in their respective markets.

It is hard for us to believe that RFP is trading as low as \$4 per share. At \$4 per share it means the market capitalization of the company is selling for less than US\$400 million dollars. The company has consolidated sales of close to \$4 billion and in each of its major business segments, it is a global leader. It is the biggest volume producer of wood products east of the Rockies, the third largest in North America for market pulp, the number one producer of newsprint in the world and the largest producer in North America of uncoated mechanical paper and an emerging tissue producer. With the exception of the wood products segment, which has revenues of approximately \$600 million, the other three segments each have revenues of approximately \$1 billion. Each of the four business segments could easily fetch at least \$400 million in a normal market.

In our opinion, the company's "normalized EBITDA (Earnings before interest, taxes, depreciation and amortization)" is approximately \$400 million. In other words, with RFP trading at \$4 per share, the market value of the company is being priced for about 1 times normalized EBITDA. The company does have net debt of approximately \$365 million, but even if you include net debt, the market is valuing the entire company for less than 2 times normalized EBITDA. It had cash of approximately \$300 million a year ago but used approximately \$156

million to acquire Atlas Paper and is spending \$270 million to convert some of its pulp mills in Calhoun, Tennessee to produce tissue papers.

A couple of years ago, it bought Fibrek Inc. for approximately \$126 million. So, if you add the bolt-in acquisitions of Fibrek (\$126 million), Atlas Paper (\$156 million) and its conversion to tissue paper (\$270 million), you end up with \$552 million. In addition, the company has tax loss carryforwards of approximately \$2 billion which it can use to offset future gains and income. All these factors lead us to believe that at current prices, RFP is very undervalued.

### **Sears Holdings**

In July 2015, Sears Holdings Corporation (SHLD) announced that it had closed its rights offering and sale-leaseback transactions with Seritage Growth Properties ("Seritage"), a recently formed, independent, publicly traded real estate investment trust ("REIT").

In the transaction, Sears sold 235 Sears- and Kmart-branded stores to Seritage along with Sears' 50 percent interests in joint ventures with each of Simon Property Group, Inc., General Growth Properties, Inc. and The Macerich Company, which together, hold an additional 31 Sears Holdings properties. Based on our rough estimate, this represented less than 25% of the company's real estate assets.

Sears Holdings received aggregate gross proceeds from the transaction of \$2.7 billion, which provides the Company with enhanced financial flexibility to accelerate investments in its transformation to an asset-light, member-centric, integrated retailer.

However, from our perspective, the most important thing that happened was that Seritage is now a public company and when its stock trades daily, we have a more reliable way of assessing the real estate value in SHLD indirectly. We also know that pre-Seritage and post-Seritage, the profile and the quality of the properties held in Seritage and SHLD is roughly the same.

At the current price of \$15 for Sears, the company is being priced in the market for about \$1.5 billion. Even if you include the debt of roughly \$3 billion, we believe that the price of Sears is severely underpriced.

However, the comparison is not apples to apples. Seritage is a clean real estate company whereas SHLD has some serious problems with its retail operations. As every day goes by, the losses from operations are eroding the value of SHLD that comes from its real estate and brand names. Those brand names such as Kenmore, Craftsman and Diehard, we believe collectively could be worth as much as \$3 billion. The transformation from the bricks-and-mortar business to their member-centric Shop Your Way ([www.shopyourway.com](http://www.shopyourway.com)) is happening; whether it is going to be successful or not is another story. These types of ventures should be classified as "venture capitals" and in spite of all the positive spins written about the transformation, it is still a hit or miss affair. Still, netting out all the negatives and all the losses from operations, we believe that the intrinsic value of Sears is far above the current price of \$15.

### **Deflation vs Inflation**

In the history of mankind, we have never really been in a kind of environment where one could make an equally strong case for deflation or for inflation. The arguments for both sides are quite compelling.

If you believe in deflation, these are the points one could make:

1) China, the recent locomotive of global growth, is lurching ahead at an ever slowing speed. Its economy and financial markets in 2015 went through tremendous turmoil, affecting all markets



worldwide. China has been a huge success story for the last 30 years as it was responsible for taking away large amounts of manufacturing jobs from developed economies. Its economy grew annually at a double digit rate and we thought this growth would not show any signs of slowing down appreciably in the near future. Even after the Great Recession of 2008, China's economy grew at a pretty good clip. However, most of the growth occurred not because of demand but due to enormous spending by all sectors of its government on unneeded housing and infrastructure. As a result, if one were to go to China now, he would notice a tremendous number of ghost cities with empty houses, empty highways and no people;

2) As shown by the weakness in commodity prices, it will take a while for demand to absorb all the excess capacity built up over the last 20 years;

3) Some sovereign bonds carry negative interest rates;

4) The recovery of the global economy from the Great Recession of 2008 has been sluggish at best.

On the flip side, one could make an equally compelling case for inflation to roar back some time in the future:

1) How low could interest rates go? At negative yields they can't go much below zero;

2) Although the recovery has been anemic, at least in nominal terms there has been some recovery;

3) The velocity of money for M2 is at an all-time low. This can be further highlighted if we hypothesize about what would happen if M2 moved back up to the historical average. If a regression to the mean was to occur, the price levels could be 25% higher than what it is today. Carrying this logic one step further, with the current levels of money-printing growing at approximately 7.2% annualized, this could see a potential price level increase of 50%, if the velocity of money were to move back up to the historical average;

4) Normal market forces, the incessant balancing of supply and demand, will bring everything into equilibrium as the boom-bust cycle produced by artificial credit creation works itself out, but you cannot 'un-print' money.

The current situation reminds me of a story about an exchange between Winston Churchill and MP Bessie Braddock:

At one time when Churchill was drunk, Bessie Braddock yelled at him, "Winston, you are drunk, and what's more, you are disgustingly drunk."

Churchill retorted, "My dear, you are ugly, and what's more, you are disgustingly ugly. But tomorrow I shall be sober and you will still be disgustingly ugly."

That's how I feel about deflation and inflation (eventual consequences of printing too much money).

### **Volatility & Returns**

As you are well aware, the cardinal principle underlying the investments in the Fund is to pay far less than what the company is worth, measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want to have an adequate "Margin of Safety" and this concept is what distinguishes investment from speculation.

This table is an abridged version of the table produced on the inner cover of the annual report:

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
⋮	⋮
Dec.31, 1998	59,187
Dec.31, 1999	53,489
Dec.31, 2000	57,967
Dec.31, 2001	70,397
Dec.31, 2002	91,504
⋮	⋮
Dec.31, 2006	139,511
Dec.31, 2007	125,258
Dec.31, 2008	88,553
Dec.31, 2009	114,854
Dec.31, 2010	136,916
⋮	⋮
Dec.31, 2015	<b><u>\$212,854</u></b>

In the years 1999 and 2008, we had negative returns, but we were able to bounce back in the following years. An investor who put in \$10,000 on December 31, 1986 would have an account worth \$212,854 as of December 31, 2015. Even if one invested at a high, let's say in 1998 or 2006, you would have still done reasonably well long term. When you are a value investor, you have no control on short-term volatility. While the future is never certain, we believe the margin of safety principle has served us well and will continue to serve us well in the future. However, the stock markets are highly volatile and there will be periods or years where we may have negative returns. The current environment reminds us of 1999 – stocks that were expensive became more expensive and stocks that were cheap became cheaper. Eventually, however, the cheap stocks will move closer to their intrinsic value. We would like to encourage our unitholders to review and understand the table as it may help them see where they stand. As you can see, we have done reasonably well in the long run.

Nevertheless, we would also stress that the amount of money that investors choose to invest in the Fund should only be to the extent that they can afford to experience a temporary decline of **40%** or more of their investment. This may sound drastic but sleeping well and not getting too anxious are also important considerations both for the manager and the investor.

## Other Matters

**FOREIGN CURRENCY CONTRACTS:** The Fund hedged Canadian dollars against U.S. dollars at 1.3036. The notional amount was US\$100,000,000. We closed out the contract and realized a loss of approximately US\$4,356,000. The Fund also hedged a second amount for US\$50,000,000 at 1.3083, and it is currently outstanding.

**CHANGE OF SERVICE PROVIDER:** We are pleased to advise you that we have moved from Citigroup Fund Services as our asset servicing provider, and we have transitioned custody, fund valuation and recordkeeping for the Chou Funds, managed by Chou Associates Management Inc. to CIBC Mellon effective December 14, 2015. CIBC Mellon is a Canadian leader in asset servicing, with more than C\$1.5 trillion of assets under administration on behalf of many of Canada's largest investment funds, pension plans and other institutional investors. Founded in 1996, CIBC Mellon is 50-50 jointly owned by Canadian Imperial Bank of Commerce (CIBC) and by BNY Mellon, a global leader in asset servicing with US\$28.5 trillion under custody and/or administration as at September 30, 2015.

Please note this is only notification for our investors, and you are not required to change or update your information. All business practices will remain consistent and you should not notice any change to your day-to-day transactions.

**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 12 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2015 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 18, 2016, the NAVPU of a Series A unit of the Fund was \$93.22 and the cash position was approximately 17.6% of net assets. The Fund is down 19.3% from the beginning of the year. In \$U.S., it is down 14.3%.

Except for the performance numbers of the Chou Associates Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Unitholders of the Chou Funds:

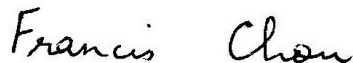
The accompanying financial statements have been prepared by the management of Chou Associates Management Inc. Management is responsible for the information and representations made in these financial statements.

Management has applied appropriate processes to ensure that the statements contain relevant and reliable financial information. The financial statements have been produced in accordance with accounting principles generally accepted in Canada and include certain amounts based on estimates and judgments. The significant accounting policies that management believes are appropriate for the Chou Funds are described in note 2 to the financial statements.

The Trustee of each of the Trusts is responsible for reviewing and approving the financial statements, and for overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors.

The Board of Directors of Chou Associates Management Inc. is responsible for reviewing and approving the financial statements, and for overseeing management's performance of its financial reporting responsibilities. It reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors. Once satisfied, the Board approves the financial statements.

KPMG LLP is the external auditor of the Chou Funds. They are appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and on 60 days notice to the unitholders.



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## INDEPENDENT AUDITORS' REPORT

To the Trustee and Unitholders of:

Chou Associates Fund  
Chou Asia Fund  
Chou Europe Fund  
Chou Bond Fund  
Chou RRSP Fund  
(collectively the "Funds")

We have audited the accompanying financial statements of the Funds, which comprise the statements of financial position as at December 31, 2015 and 2014, the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2015 and 2014, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 23, 2016  
Toronto, Canada

# CHOU ASSOCIATES FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 309,568,539	\$ 345,994,347
Held-for-trading investments (note 8)	65,497,338	51,653,088
Cash and cash equivalents	147,614,159	160,076,493
Receivable for units subscribed	442,190	368,864
Other receivable	-	361,591
Interest receivable	160,380	185,359
<b>Total assets</b>	<b>523,282,606</b>	<b>558,639,742</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	785,661	1,171,148
Payable for units redeemed	474,015	528,777
Distributions payable	43,666	118,415
Due to broker	4,499,169	-
Unrealized loss on forward contracts (note 8)	3,768,750	-
<b>Total liabilities</b>	<b>9,571,261</b>	<b>1,818,340</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 513,711,345</b>	<b>\$ 556,821,402</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 468,191,243	\$ 513,815,498
Series F	45,520,102	43,005,904
	<b>\$ 513,711,345</b>	<b>\$ 556,821,402</b>
Number of units outstanding (note 4):		
Series A	4,053,774	4,142,334
Series F	396,647	348,701
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 115.50	\$ 124.04
Series F	114.76	123.33
U.S. dollars:		
Series A	83.47	106.88
Series F	82.94	106.27

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors  
of Chou Associates Management Inc.:

*Francis Chou*



# CHOU ASSOCIATES FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2015 and 2014

	2015	2014
Income:		
Interest for distribution purposes and other	\$ 1,543,444	\$ 1,119,683
Dividends	2,249,106	3,774,710
Securities lending income (note 7)	2,228,828	3,852,694
Foreign currency gain on cash and other net assets	9,463,423	6,024,131
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	13,182,511	12,725,159
Net realized gain (loss) on held-for-trading investments	(5,985,832)	1,038,305
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	(60,021,725)	29,348,634
Change in unrealized appreciation on held-for-trading investments	10,075,506	11,815,101
	(27,264,739)	69,698,417
Expenses:		
Management fees (note 5)	8,949,782	8,510,843
Custodian fees	595,820	561,705
Audit	90,515	54,750
Filing fees	63,563	45,625
Independent Review Committee fees	22,793	24,720
FundSERV fees	-	28,093
Legal fees	20,802	32,901
Transaction costs (note 6)	129,305	130,987
Valuation fees	27,067	-
Foreign withholding taxes	518,088	193,097
	10,417,735	9,582,721
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (37,682,474)	\$ 60,115,696
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (34,597,578)	\$ 55,438,608
Series F	(3,084,896)	4,677,088
	\$ (37,682,474)	\$ 60,115,696
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (8.41)	\$ 13.31
Series F	(8.30)	13.77

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 513,815,498	\$ 468,682,187
Increase (decrease) in net assets attributable to unitholders of redeemable units	(34,597,578)	55,438,608
Proceeds from issue of units	30,002,576	33,224,005
Payments on redemption of units	(41,026,329)	(43,470,813)
Distributions of income to unitholders:		
Investment income	—	(2,924,575)
Capital gains	(265,211)	—
Reinvested distributions	262,287	2,866,086
Net assets attributable to unitholders of redeemable units, end of year	468,191,243	513,815,498
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	43,005,904	33,830,915
Increase (decrease) in net assets attributable to unitholders of redeemable units	(3,084,896)	4,677,088
Proceeds from issue of units	12,203,597	14,063,642
Payments on redemption of units	(6,565,419)	(9,504,333)
Distributions of income to unitholders:		
Investment income	—	(483,874)
Capital gains	(328,980)	—
Reinvested distributions	289,896	422,466
Net assets attributable to unitholders of redeemable units, end of year	45,520,102	43,005,904
<b>Total net assets attributable to unitholders of redeemable units, end of year</b>	<b>\$ 513,711,345</b>	<b>\$ 556,821,402</b>

See accompanying notes to financial statements.



# CHOU ASSOCIATES FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (37,682,474)	\$ 60,115,696
Adjustments for:		
Foreign currency gain on cash and other net assets	(9,463,423)	(6,024,131)
Net realized gain on financial assets at fair value through profit or loss	(13,182,511)	(13,763,464)
Change in unrealized appreciation (depreciation) on investments and derivatives	49,946,219	(41,163,735)
Change in non-cash operating working capital:		
Decrease (increase) in interest receivable	24,979	(81,564)
Decrease (increase) in other receivable	361,591	(42,066)
Decrease in accrued expenses	(385,487)	(29,388)
Purchase of investments	(28,895,849)	(35,628,350)
Proceeds from sales of investments	22,981,618	27,801,348
Net cash used in operating activities	(16,295,337)	(8,815,654)
Cash flows from financing activities:		
Distributions paid to unitholders	(116,757)	(385,940)
Proceeds from redeemable units issued	42,132,847	47,229,222
Amount paid on redemption of redeemable units	(47,646,510)	(52,827,260)
Net cash used in financing activities	(5,630,420)	(5,983,978)
Foreign currency gain on cash and other net assets	9,463,423	6,024,131
Decrease in cash and cash equivalents	(12,462,334)	(8,775,501)
Cash and cash equivalents, beginning of year	160,076,493	168,851,994
Cash and cash equivalents, end of year	\$ 147,614,159	\$ 160,076,493
Supplemental information:		
Interest received, net of withholding tax	\$ 1,568,423	\$ 1,038,119
Dividends received, net of withholding tax	2,248,588	3,581,613

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Schedule of Investments

December 31, 2015

	Number of Shares	Cost	Fair value
<b>Equities*</b>			
Ascent Media Corporation	340,000	\$ 15,712,984	\$ 7,866,058
Berkshire Hathaway Inc., Class "A"	300	31,639,836	82,108,758
Chicago Bridge & Iron Co.	67,446	2,967,433	3,638,743
Citigroup Inc.	410,000	10,358,742	29,358,655
Goldman Sachs Group Inc. (The)	75,000	9,384,141	18,703,818
International Automotive Components Group North America	1,094,922	120,506	757,522
MBIA Inc.	1,080,797	7,479,425	9,690,832
Nokia Corporation ADR	3,750,000	8,829,385	36,425,903
Overstock.com Inc.	430,295	8,660,596	7,311,502
Resolute Forest Products	3,689,258	57,907,031	38,643,535
Sanofi ADR	390,000	13,783,524	23,015,774
Sears Canada Inc.	482,319	5,170,600	3,410,336
Sears Holdings Corporation	896,088	32,418,537	25,492,693
Sears Hometown and Outlet Stores Inc.	1,322,209	24,776,606	14,636,325
		229,209,346	301,060,454
<b>Bonds</b>			
Exco Resources Inc., term loan	5,000,000	4,350,248	3,908,952
R.H. Donnelley Inc., term loans, Dec. 31, 2016	7,756,811	6,055,988	4,599,133
		10,406,236	8,508,085
Total long		239,615,582	309,568,539
<b>Held-for-trading</b>			
General Motors Company, warrants, Class B, July 10, 2019	13,019	211,015	294,715
JPMorgan Chase & Company, warrants, Oct. 28, 2018	1,126,347	13,927,767	36,921,490
Wells Fargo & Company, warrants, Oct. 28, 2018	997,500	7,995,397	28,281,133
Currency forward - Deliver USD/receive CAD Jan. 25, 2016 @1.3082 on \$50,000,000 USD	—	—	(3,768,750)
Total held-for-trading		22,134,179	61,728,588
Total investments		261,749,761	371,297,127
Transaction costs		(604,876)	—
Portfolio total		\$ 261,144,885	\$ 371,297,127

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

Discussion of Financial Risk Management

Years ended December 31, 2015 and 2014

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## Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of U.S. and foreign businesses considered by the Manager to be undervalued. The Fund may also invest in the equity securities of Canadian businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

## Risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at December 31, 2015, the Fund invested approximately 1.66% (2014 - 1.2%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered a speculative investment.

### (b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	2015	2014
Less than 1 year	\$ —	\$ —
1 - 3 years	4,599,133	6,837,486
3 - 5 years	3,908,953	—
Greater than 5 years	—	—

As at December 31, 2015, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$58,518 (2014 - \$206,000).

In practice, the actual trading results may differ and the difference could be material.

# CHOU ASSOCIATES FUND

Discussion of Financial Risk Management

Years ended December 31, 2015 and 2014

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## Risk management (continued):

(c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 58.60% (2014 - 60.90%) of the Fund's net assets held at December 31, 2015 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2015, the net assets of the Fund would have increased or decreased by approximately \$15,053,023, or 2.93% (2014 - \$16,958,000, or 3.00%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

(d) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2015 and 2014 are as follows:

2015	Foreign currency forward contract	Financial instruments	Percentage of NAV
United States dollar	\$ 50,000,000	\$ 347,988,204	67.7

2014	Foreign currency forward contract	Financial instruments	Percentage of NAV
United States dollar	\$ -	\$ 444,637,610	79.8

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash, cash equivalents and investments). Other financial assets (including interest receivable, receivable for units subscribed and other receivable and financial liabilities (including accrued expenses, payable for units redeemed, distributions payable and due to broker) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$3,479,882 (2014 - \$4,443,000).

In practice, the actual trading results may differ and the difference could be material.

**CHOU ASIA FUND**  
(unaudited)

March 18, 2016

Dear Unitholders of Chou Asia Fund,

After the distribution of \$2.44, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Asia Fund at December 31, 2015 was \$16.23 compared to \$17.70 at December 31, 2014, an increase of 5.5%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars returned 17.3%. In \$U.S., a Series A unit of Chou Asia Fund was down 11.5% while the MSCI AC Asia Pacific Total Return Index decreased 1.5%.

The table shows our one-year, three-year, five-year and 10-year annual compound rates of return.

<b>December 31, 2015 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Asia (\$CAN)	5.5%	12.0%	5.7%	6.9%
MSCI AC Asia Pacific TR (\$CAN)	17.3%	15.7%	9.2%	5.4%
Chou Asia (\$U.S.) <sup>2</sup>	-11.5%	0.4%	-1.1%	5.1%
MSCI AC Asia Pacific TR (\$U.S.)	-1.5%	3.6%	2.2%	3.6%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**Factors Influencing the 2015 Results**

The weakness of the Canadian dollar against the U.S. dollar had a positive impact on the results of the Fund vis-a-vis the Hong Kong dollar (\$HK) on the net asset value per unit (NAVPU) of the Fund. For example, on December 31, 2014, one \$HK was worth approximately \$0.15 Canadian, whereas one year later, on December 31, 2015, one \$HK was worth approximately \$0.18 Canadian.

BYD Company Limited and AJIS Company Limited were positive contributors to the Fund’s performance.

Declines came from the equity securities of BYD Electronic (International) Company Limited, China Yuchai International Limited, Glacier Media Inc. and Pyne Gould Corporation Limited.

Shares of Hanfeng Evergreen Inc. have been delisted, therefore we have taken our valuation to \$0.05 per share.

The Fund initiated a new position with POSCO ADR, and added shares of China Yuchai International Limited.

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<sup>2</sup>The alternative method of purchasing Chou Asia Fund in \$U.S. has been offered since September 2005. Performance for years prior to September 2005 is based on the \$U.S. equivalent conversion of the results of the Chou Asia Fund (\$CAN). The investments in the Chou Asia Fund (\$CAN) are the same as the investments in Chou Asia Fund (\$U.S.) except for the currency applied.

The Fund sold all of its shares of Chunghwa Telecom Co., Ltd. ADR and Pronexus Inc.

**Net Cash Balance 73% at year-end 2015**

The average month-end cash balance for 2015 was approximately 65%, and at year-end 2015, the net cash balance was approximately 73% – which tells its own story. We continue to be concerned with China’s economy. It’s still not as healthy as the government wants us to believe. Huge sums of money have been put into building cities and highways, but all remain eerily empty. Any slowdown in China’s economy will have a negative impact on Canada’s economy. Our economy is based on commodities and energy and China imports a lot of our raw materials.

We’re also still concerned with the heavy leverage that Chinese investors use when they invest in equity securities.

We’re awaiting developments and remain cautious.

**Other Matters**

**FOREIGN CURRENCY CONTRACTS:** The Fund hedged Canadian dollars against U.S. dollars at 1.3083. The notional amount was US\$20,000,000. We closed out the contract and realized a loss of approximately US\$803,000 at the period ending December 31, 2015.

**CREDIT DEFAULT SWAPS:** None existed at December 31, 2015.

**CONSTANT MATURITY SWAPS:** None existed at December 31, 2015.

**U.S. DOLLAR VALUATION:** Any investor who wishes to purchase the Chou Funds in \$U.S. is now able to do so.

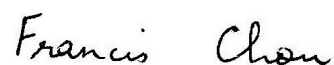
**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 12 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2015 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 18, 2016, the NAVPU of a Series A unit of the Fund was \$15.76 and the cash position was approximately 71.5% of net assets. The Fund is down 2.9% from the beginning of the year. In \$U.S., it is up 3.0%.

Except for the performance numbers of the Chou Asia Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

# CHOU ASIA FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 11,071,797	\$ 19,156,832
Cash and cash equivalents	29,197,185	20,023,286
Receivable for units subscribed	4,958	35,318
Other receivable	—	2,070
Dividends receivable	—	10,100
<b>Total assets</b>	<b>40,273,940</b>	<b>39,227,606</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	60,228	61,732
Payable for units redeemed	—	5,673
Distributions payable	97,499	12,561
<b>Total liabilities</b>	<b>157,727</b>	<b>79,966</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 40,116,213</b>	<b>\$ 39,147,640</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 37,670,566	\$ 37,324,196
Series F	2,445,647	1,823,444
	<b>\$ 40,116,213</b>	<b>\$ 39,147,640</b>
Number of units outstanding (note 4):		
Series A	2,320,612	2,109,279
Series F	149,073	102,055
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 16.23	\$ 17.70
Series F	16.41	17.87
U.S. dollars:		
Series A	11.73	15.25
Series F	11.86	15.40

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors  
of Chou Associates Management Inc.:

Francis Chou



# CHOU ASIA FUND

## Statements of Comprehensive Income

Years ended December 31, 2015 and 2014

	2015	2014
Income:		
Interest for distribution purposes and other	\$ 8,264	\$ 4,840
Dividends	122,012	454,163
Securities lending income (note 7)	19,724	136,918
Foreign currency gain on cash and other net assets	3,949,178	1,124,566
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	4,307,143	1,228,609
Net realized loss on held-for-trading investments	(1,103,315)	—
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	(4,339,978)	713,168
	2,963,028	3,662,264
Expenses:		
Management fees (note 5)	685,538	657,820
Custodian fees	46,847	43,801
Audit	24,321	3,650
Filing fees	4,192	347
Independent Review Committee fees	1,778	1,978
FundSERV fees	—	577
Legal fees	1,708	991
Transaction costs (note 6)	31,050	15,479
Valuation fees	2,062	—
Foreign withholding taxes	9,892	59,237
	807,388	783,880
Increase in net assets attributable to unitholders of redeemable units	\$ 2,155,640	\$ 2,878,384
Increase in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ 2,046,393	\$ 2,785,938
Series F	109,247	92,446
	\$ 2,155,640	\$ 2,878,384
Increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 0.98	\$ 1.29
Series F	0.84	1.13

See accompanying notes to financial statements.



# CHOU ASIA FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 37,324,196	\$ 38,370,273
Increase in net assets attributable to unitholders of redeemable units	2,046,393	2,785,938
Proceeds from issue of units	1,403,686	1,814,263
Payments on redemption of units	(3,021,776)	(5,636,420)
Distributions of income to unitholders:		
Capital gains	(4,926,625)	(654,367)
Reinvested distributions	4,844,692	644,509
Net assets attributable to unitholders of redeemable units, end of year	37,670,566	37,324,196
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	1,823,444	1,339,186
Increase in net assets attributable to unitholders of redeemable units	109,247	92,446
Proceeds from issue of units	822,950	838,038
Payments on redemption of units	(294,830)	(443,523)
Distributions of income to unitholders:		
Capital gains	(331,743)	(46,568)
Reinvested distributions	316,579	43,865
Net assets attributable to unitholders of redeemable units, end of year	2,445,647	1,823,444
Total net assets attributable to unitholders of redeemable units, end of year	\$ 40,116,213	\$ 39,147,640

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase in net assets attributable to unitholders of redeemable units	\$ 2,155,640	\$ 2,878,384
Adjustments for:		
Foreign currency gain on cash and other net assets	(3,949,178)	(1,124,566)
Net realized gain on financial assets at fair value through profit or loss	(4,307,143)	(1,228,609)
Change in unrealized appreciation (depreciation) on investments and derivatives	4,339,978	(713,168)
Change in non-cash operating working capital:		
Decrease in dividends receivable	10,100	166
Decrease in other receivable	2,070	17,675
Decrease in accrued expenses	(1,504)	(16,265)
Purchase of investments	(2,157,782)	7,029,976
Proceeds from sales of investments	10,209,981	—
Net cash generated from operating activities	6,302,162	6,843,593
Cash flows from financing activities:		
Distributions paid to unitholders	(12,159)	—
Proceeds from redeemable units issued	2,256,997	2,652,363
Amount paid on redemption of redeemable units	(3,322,279)	(6,094,865)
Net cash used in financing activities	(1,077,441)	(3,442,502)
Foreign currency gain on cash and other net assets	3,949,178	1,124,566
Increase in cash and cash equivalents	9,173,899	4,525,657
Cash and cash equivalents, beginning of year	20,023,286	15,497,629
Cash and cash equivalents, end of year	\$ 29,197,185	\$ 20,023,286
Supplemental information:		
Interest received, net of withholding tax	\$ 8,264	\$ 4,840
Dividends received, net of withholding tax	132,102	395,092
Security lending income received	19,724	154,593

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Schedule of Investments

December 31, 2015

	Number of Shares	Cost	Fair value
<b>Equities*</b>			
AJIS Company Limited	15,200	\$ 213,157	\$ 647,441
BYD Company Limited, Class H	573,000	989,812	4,363,260
BYD Electronic (International) Company Limited	1,798,000	436,061	1,335,428
China Yuchai International Limited	73,364	1,242,575	1,092,288
Glacier Media Inc.	505,007	1,363,645	373,705
Hanfeng Evergreen Inc.	95,850	228,548	—
POSCO Sponsored ADR	21,000	1,259,883	1,027,480
Pyne Gould Corporation Limited	9,627,219	2,155,762	2,232,195
Total long		7,889,443	11,071,797
Total investments		7,889,443	11,071,797
Transaction costs		(8,344)	—
Portfolio total		\$ 7,881,099	\$ 11,071,797

\*Common shares unless indicated otherwise

See accompanying notes to financial statements.

## CHOU ASIA FUND

Discussion of Financial Risk Management (continued)

Years ended December 31, 2015 and 2014

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Asian businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Asia. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing that focuses on the Asian market. The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

(a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 27.60% (2014 - 48.90%) of the Fund's net assets held at December 31, 2015 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2015, the net assets of the Fund would have increased or decreased by approximately \$553,590, or 1.38% (2014 - \$958,000, or 2.40%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

(b) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2015 and 2014 are as follows:

2015	Financial instruments	Percentage of NAV
Hong Kong dollar	\$ 16,416,408	40.9
United States dollar	\$ 7,666,272	19.1
Japanese yen	¥ 9,296,467	23.2
New Zealand dollar	\$ 2,362,672	5.9
Singapore dollar	\$ 170,191	0.4

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## CHOU ASIA FUND

Discussion of Financial Risk Management (continued)

Years ended December 31, 2015 and 2014

### Risk management (continued):

2014	Financial instruments	Percentage of NAV
Hong Kong dollar	\$ 13,606,569	34.8
United States dollar	\$ 7,745,128	19.8
Japanese yen	¥ 7,379,441	18.9
New Zealand dollar	\$ 3,784,805	9.7
Singapore dollar	\$ 152,822	0.4

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash, cash equivalents and investments). Other financial assets (including dividends receivable, other receivable and receivable for units subscribed) and financial liabilities (including accrued expenses, payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$359,120 (2014 - \$327,000).

In practice, the actual trading results may differ and the difference could be material.

**CHOU EUROPE FUND**  
(unaudited)

March 18, 2016

Dear Unitholders of Chou Europe Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Europe Fund at December 31, 2015 was \$11.94 compared to \$11.72 at December 31, 2014, an increase of 1.9%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars returned 15.9%. In \$U.S., a Series A unit of Chou Europe Fund was down 14.6% while the MSCI AC Europe Total Return Index was down 2.6%.

The table shows our one-year, three-year, five-year and 10-year annual compound rates of return.

<b>December 31, 2015 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Europe (\$CAN)	1.9%	13.3%	12.0%	2.1%
MSCI AC Europe TR (\$CAN)	15.9%	16.3%	10.9%	5.6%
Chou Europe (\$U.S.) <sup>3</sup>	-14.6%	1.1%	4.6%	0.3%
MSCI AC Europe TR (\$U.S.)	-2.6%	4.2%	3.9%	3.8%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**Factors Influencing the 2015 Results**

The weakness of the Canadian dollar against three major currencies had a positive impact on the results of the Fund: the U.S. dollar, the pound sterling and the Euro. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2014, one U.S. dollar was worth approximately \$1.16 Canadian, whereas one year later, on December 31, 2015, one U.S. dollar was worth approximately \$1.38 Canadian. On December 31, 2014, one pound sterling was worth approximately \$1.81 Canadian, whereas on December 31, 2015, one pound sterling was worth approximately \$2.04 Canadian. And on December 31, 2014, one Euro was worth approximately \$1.40 Canadian, whereas on December 31, 2015, one Euro was worth approximately \$1.50 Canadian.

Positive contributors to the Fund’s performance during the year ended December 31, 2015, included equity securities of Next PLC, Ryanair Holdings PLC ADR, the Bank of Ireland, OTCPharm PJSC and Abbey PLC.

<sup>3</sup> The alternative method of purchasing Chou Europe Fund in \$U.S. has been offered since September 2005. Performance for years prior to September 2005 is based on the \$U.S. equivalent conversion of the results of the Chou Europe Fund (\$CAN). The investments in the Chou Europe Fund (\$CAN) are the same as the investments in Chou Europe Fund (\$U.S.) except for the currency applied.

The Fund's largest equity decliners during the year were Eurobank Ergasias SA, Pharmstandard GDR, Avangardco Investments Ltd., Sanofi ADR and BP PLC ADR.

In November of 2015, EFG Eurobank Ergasias announced a reverse split of 100 to 1, and the new shares started to trade on the Athens Stock Exchange under Eurobank Ergasias SA.

The Fund sold off all its holdings in Heracles General Cement Company S.A.

### **Europe and Greece**

It seems that Greece's financial shape has been dismal almost forever. It is an eye opener to see that since the year 1800, Greece has spent roughly 50% of its time in default or debt rescheduling. It has too much debt and it seems that the Greek citizens have finally decided to implement the reform program required by the Troika (the European Commission, the International Monetary Fund, and the European Central Bank), but based on history, it won't solve the problem, it will only give them some short-term relief.

With this in mind, it is no surprise that 2015 was a difficult year for us in Greece; we experienced (unrealized) losses of almost our entire investment in Eurobank Ergasias SA. Sometimes politics can trump economics.

### **Deflation vs Inflation**

In the history of mankind, we have never really been in a kind of environment where one could make an equally strong case for deflation or for inflation. The arguments for both sides are quite compelling.

If you believe in deflation, these are the points one could make:

- 1) China, the recent locomotive of global growth, is lurching ahead at an ever slowing speed. Its economy and financial markets in 2015 went through tremendous turmoil, affecting all markets worldwide. China has been a huge success story for the last 30 years as it was responsible for taking away large amounts of manufacturing jobs from developed economies. Its economy grew annually at a double digit rate and we thought this growth would not show any signs of slowing down appreciably in the near future. Even after the Great Recession of 2008, China's economy grew at a pretty good clip. However, most of the growth occurred not because of demand but due to enormous spending by all sectors of its government on unneeded housing and infrastructure. As a result, if one were to go to China now, he would notice a tremendous number of ghost cities with empty houses, empty highways and no people;
- 2) As shown by the weakness in commodity prices, it will take a while for demand to absorb all the excess capacity built up over the last 20 years;
- 3) Some sovereign bonds carry negative interest rates;
- 4) The recovery of the global economy from the Great Recession of 2008 has been sluggish at best.

On the flip side, one could make an equally compelling case for inflation to roar back some time in the future:

- 1) How low could interest rates go? At negative yields they can't go much below zero;

2) Although the recovery has been anemic, at least in nominal terms there has been some recovery;

3) The velocity of money for M2 is at an all-time low. This can be further highlighted if we hypothesize about what would happen if M2 moved back up to the historical average. If a regression to the mean was to occur, the price levels could be 25% higher than what it is today. Carrying this logic one step further, with the current levels of money-printing growing at approximately 7.2% annualized, this could see a potential price level increase of 50%, if the velocity of money were to move back up to the historical average;

4) Normal market forces, the incessant balancing of supply and demand, will bring everything into equilibrium as the boom-bust cycle produced by artificial credit creation works itself out, but you cannot 'un-print' money.

The current situation reminds me of a story about an exchange between Winston Churchill and MP Bessie Braddock:

At one time when Churchill was drunk, Bessie Braddock yelled at him, "Winston, you are drunk, and what's more, you are disgustingly drunk."

Churchill retorted, "My dear, you are ugly, and what's more, you are disgustingly ugly. But tomorrow I shall be sober and you will still be disgustingly ugly."

That's how I feel about deflation and inflation (eventual consequences of printing too much money).

### **Other Matters**

**CHANGE OF SERVICE PROVIDER:** We are pleased to advise you that we have moved from Citigroup Fund Services as our asset servicing provider, and we have transitioned custody, fund valuation and recordkeeping for the Chou Funds, managed by Chou Associates Management Inc. to CIBC Mellon effective December 14, 2015. CIBC Mellon is a Canadian leader in asset servicing, with more than C\$1.5 trillion of assets under administration on behalf of many of Canada's largest investment funds, pension plans and other institutional investors. Founded in 1996, CIBC Mellon is 50-50 jointly owned by Canadian Imperial Bank of Commerce (CIBC) and by BNY Mellon, a global leader in asset servicing with US\$28.5 trillion under custody and/or administration as at September 30, 2015.

Please note this is only notification for our investors, and you are not required to change or update your information. All business practices will remain consistent and you should not notice any change to your day-to-day transactions.

**FOREIGN CURRENCY CONTRACTS:** The Fund hedged Canadian dollars against U.S. dollars at 1.3083. The notional amount was US\$10,000,000, and it is currently outstanding.

**CREDIT DEFAULT SWAPS:** None existed at December 31, 2015.

**CONSTANT MATURITY SWAPS:** None existed at December 31, 2015.



U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in \$U.S. is now able to do so.

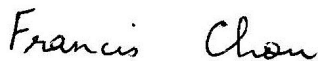
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 12 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2015 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 18, 2016, the NAVPU of a Series A unit of the Fund was \$10.67 and the cash position was approximately 22.0% of net assets. The Fund is down 10.6% from the beginning of the year. In \$U.S., it is down 5.1%.

Except for the performance numbers of the Chou Europe Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

# CHOU EUROPE FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 15,348,759	\$ 14,151,438
Cash and cash equivalents	7,184,135	9,250,100
Receivable for units subscribed	844	39,335
Dividends receivable	104,008	25,667
<b>Total assets</b>	<b>22,637,746</b>	<b>23,466,540</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	32,305	36,515
Payable for units redeemed	51,123	175,091
Distributions payable	—	4,762
Unrealized loss on forward contracts (note 8)	753,750	—
<b>Total liabilities</b>	<b>837,178</b>	<b>216,368</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 21,800,568</b>	<b>\$ 23,250,172</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 17,973,621	\$ 20,884,225
Series F	3,826,947	2,365,947
	<b>\$ 21,800,568</b>	<b>\$ 23,250,172</b>
Number of units outstanding (note 4):		
Series A	1,505,731	1,785,202
Series F	316,203	200,686
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 11.94	\$ 11.70
Series F	12.10	11.79
U.S. dollars:		
Series A	8.59	10.08
Series F	8.71	10.16

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors  
of Chou Associates Management Inc.:

Francis Chou



# CHOU EUROPE FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2015 and 2014

	2015	2014
Income:		
Interest for distribution purposes and other	\$ 67,848	\$ 13,954
Dividends	399,844	454,035
Foreign currency gain on cash and other net assets	114,892	98,011
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on fair value of financial assets designated at fair value through profit or loss	(8,071)	625,678
Net realized gain on held-for trading investments	62	-
Change in unrealized appreciation (depreciation) on fair value of financial assets designated at fair value through profit or loss	1,205,483	(1,042,218)
Change in unrealized depreciation on held-for-trading investments	(753,750)	-
	1,026,308	149,460
Expenses:		
Management fees (note 5)	389,547	412,946
Custodian fees	38,344	47,890
Audit	22,800	605
Filing fees	2,685	3,044
Independent Review Committee fees	1,021	1,088
FundSERV fees	-	1,244
Legal fees	1,029	1,306
Transaction costs (note 6)	-	5,925
Valuation fees	1,208	-
Foreign withholding taxes	46,072	37,007
	502,706	511,055
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 523,602	\$ (361,595)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ 545,086	\$ (234,394)
Series F	(21,484)	(127,201)
	\$ 523,602	\$ (361,595)
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 0.33	\$ (0.13)
Series F	(0.08)	(0.83)

See accompanying notes to financial statements.

# CHOU EUROPE FUND

Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 20,884,225	\$ 17,951,190
Increase (decrease) in net assets attributable to unitholders of redeemable units	545,086	(234,394)
Proceeds from issue of units	1,577,995	9,523,946
Payments on redemption of units	(5,033,694)	(6,355,311)
Distributions of income to unitholders:		
Investment income	—	(28,517)
Reinvested distributions	9	27,311
Net assets attributable to unitholders of redeemable units, end of year	17,973,621	20,884,225
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	2,365,947	929,326
Decrease in net assets attributable to unitholders of redeemable units	(21,484)	(127,201)
Proceeds from issue of units	1,979,379	2,195,879
Payments on redemption of units	(497,094)	(628,501)
Distributions of income to unitholders:		
Investment income	—	(24,733)
Reinvested distributions	199	21,177
Net assets attributable to unitholders of redeemable units, end of year	3,826,947	2,365,947
Total net assets attributable to unitholders of redeemable units, end of year	\$ 21,800,568	\$ 23,250,172

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 523,602	\$ (361,595)
Adjustments for:		
Foreign currency gain on cash and other net assets	(114,892)	(98,011)
Net realized loss (gain) on financial assets at fair value through profit or loss	8,071	(625,678)
Change in unrealized depreciation (appreciation) on investments and derivatives	(451,733)	1,042,218
Change in non-cash operating working capital:		
Increase in dividends receivable	(78,341)	(2,849)
Increase (decrease) in accrued expenses	(4,210)	33,108
Purchase of investments	—	(7,465,014)
Proceeds from sales of investments	91	1,327,427
Net cash used in operating activities	(117,412)	(6,150,394)
Cash flows from financing activities:		
Distributions paid to unitholders	(4,554)	(10,231)
Proceeds from redeemable units issued	3,595,865	12,003,273
Amount paid on redemption of redeemable units	(5,654,756)	(6,849,856)
Net cash generated from (used in) financing activities	(2,063,445)	5,143,186
Foreign currency gain on cash and other net assets	114,892	98,011
Decrease in cash and cash equivalents	(2,065,965)	(909,197)
Cash and cash equivalents, beginning of year	9,250,100	10,159,297
Cash and cash equivalents, end of year	\$ 7,184,135	\$ 9,250,100
Supplemental information:		
Interest received, net of withholding tax	\$ 67,847	\$ 13,954
Dividends received, net of withholding tax	321,458	414,179

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Schedule of Investments

December 31, 2015

	Number of Shares	Cost	Fair value
<b>Equities*</b>			
Abbey PLC	33,005	\$ 237,128	\$ 769,728
AstraZeneca PLC	13,000	701,770	1,224,213
Avangardco Investments Public Limited	120,000	1,081,819	207,555
BP PLC ADR	10,000	313,497	432,545
EFG Eurobank Ergasias	50,000	2,356,029	78,195
GlaxoSmithKline PLC	18,000	491,338	504,132
Intralot S.A.	717,575	1,659,636	1,262,487
Next PLC	18,000	581,417	2,676,710
OTCPHARM PJSC	235,938	–	1,018,635
Pharmstandard GDR	177,605	1,385,014	1,030,930
Ryanair Holdings PLC ADR	16,575	478,533	1,982,945
Sanofi ADR	20,000	884,092	1,180,296
The Governor and Company of the Bank of Ireland	3,400,000	383,114	1,728,101
Trastor Real Estate Investment Company	854,133	797,009	1,252,287
<b>Total long</b>		<b>11,350,396</b>	<b>15,348,759</b>
<b>Held-for-trading</b>			
Currency forward - Deliver USD/receive CAD Jan. 25, 2016 @1.3082 on \$10,000,000 USD	–	–	(753,750)
<b>Total held-for-trading</b>		<b>–</b>	<b>(753,750)</b>
<b>Total investments</b>		<b>11,350,396</b>	<b>14,595,009</b>
Transaction costs		(7,870)	–
<b>Portfolio total</b>		<b>\$ 11,342,526</b>	<b>\$ 14,595,009</b>

\*Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Years ended December 31, 2015 and 2014

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of European businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Europe. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 70.41% (2014 - 60.90%) of the Fund's net assets held at December 31, 2015 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2015, the net assets of the Fund would have increased or decreased by approximately \$767,438, or 3.52% (2014 - \$707,000, or 3.00%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2015 and 2014 are as follows:

2015	Foreign currency forward contract	Financial instruments	Percentage of NAV
Euro currency		€ 5,094,251	23.4
United States dollar	\$ 10,000,000	\$ (6,058,985)	(27.8)
Sterling pound		£ 4,651,254	21.3

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# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Years ended December 31, 2015 and 2014

### Financial risk management (continued):

2014	Foreign currency forward contract	Financial instruments	Percentage of NAV
Euro currency		€ 5,769,586	24.8
United States dollar	\$ –	\$ 5,154,980	22.2
Sterling pound		£ 3,737,337	16.1

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash, cash equivalents and investments). Other financial assets (including dividends receivable and receivable for units subscribed) and financial liabilities (including accrued expenses, payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$36,865 (2014 - \$147,000).

In practice, the actual trading results may differ and the difference could be material.



## CHOU BOND FUND

(unaudited)

March 18, 2016

Dear Unitholders of Chou Bond Fund,

After the distribution of \$0.83, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Bond Fund at December 31, 2015 was \$8.78 compared to \$9.96 at December 31, 2014, an decrease of 3.6%; during the same period, Barclays’ U.S. High Yield Index (\$CAN) returned 13.7%. In \$U.S., a Series A unit of Chou Bond Fund was down 19.1% while the Barclays U.S. Corporate High Yield Index decreased 4.5%.

The table shows our one-year, three-year, five-year and ten-year annual compound rates of return.

<b>December 31, 2015 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Bond (\$CAN)	-3.6%	9.4%	3.8%	5.4%
Barclays’ U.S. High Yield (\$CAN)	13.7%	13.5%	12.2%	8.8%
Chou Bond (\$U.S.) <sup>4</sup>	-19.1%	-2.0%	-2.8%	3.6%
Barclays’ U.S High Yield (\$U.S.)	-4.5%	1.7%	5.0%	7.0%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the 2015 Results

The weakness of the Canadian dollar against the U.S. dollar had a positive impact on the results of the Fund. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2014, one U.S. dollar was worth approximately \$1.16 Canadian, whereas one year later, on December 31, 2015, one U.S. dollar was worth approximately \$1.38 Canadian.

The debt securities of Fortress Paper Limited 7.00%, due December 31, 2019 and Fortress Paper Limited 6.50% due December 31, 2016, Atlanticus Holdings Corporation 5.875%, due November 30, 2035, Taiga Building Products Limited 14.00%, due October 30, 2017 and UKRLANDFARMING PLC 10.875%, due March 26, 2018, contributed positively to the Fund’s performance during 2015.

The debt securities of Catalyst Paper Corporation 11.00%, due October 30, 2017, Ascent Capital Group Inc. 4.00%, due July 14, 2020 and Avangardco Investments 10.00%, due October 29, 2018, as well as the equity securities of Resolute Forest Products, contributed negatively to the

<sup>4</sup> The alternative method of purchasing Chou Bond Fund in \$U.S. has been offered since September 2005. The investments in the Chou Bond Fund (\$CAN) are the same as the investments in Chou Bond Fund (\$U.S.) except for the currency applied.

Fund's performance during the year. The RH Donnelley Inc. and Dex Media West LLC Term Loans also declined during 2015.

The Fund increased its position in the debt securities of Catalyst Paper Corporation 11.00%, due October 30, 2018.

The Fund initiated new positions in the debt securities of Exco Resources 8.50%, due April 2022 and Sandridge Energy Inc. 8.75%, due June 1, 2020.

### Portfolio Commentary

Throughout 2015 and the early part of 2016, stock and bond markets were not cheap in general but some sectors were hit so badly that it makes sense for us to dig deeper when looking at them. For example, let's take a look at the oil and gas sector whose stocks and bonds have fallen dramatically over the past few years:

<i>(US\$ In millions, excluding stock, bond and commodity prices)</i>	Comstock		Exco	
	Resources ("CRK")		Resources ("XCO")	
	2013	2015	2013	2015
Stock Price <sup>1</sup>	\$18.29		\$5.31	
Enterprise Value <sup>1</sup>	\$1,668		\$2,999	
PV-10*	\$1,100	\$372	\$1,300	\$402
PV-10 Oil Price <sup>2</sup>	\$96.94	\$46.88	\$96.78	\$50.28
PV-10 Nat Gas Price <sup>2</sup>	\$3.67	\$2.34	\$3.67	\$2.59
Total Senior Bank Debt <sup>3</sup>		\$0		\$95
Total Outstanding Secured Bonds <sup>3</sup> (1st or 2nd Lien)		700M		700M
Current Price of Bonds		\$0.40		\$0.40
"Market Value" of Secured Bonds <sup>3</sup>		\$280		\$280
Total Sr Bank Debt + "MV" of Secured Bonds		\$280		\$375
Total Sr Bank Debt + "MV" of Secured Bonds as % of 2013 Enterprise Value		16.8%		12.5%
Current YTM of Secured Bonds <sup>4</sup> (1st or 2nd Lien)		42.6%		49.8%
Most Recent Company Information:	December 2015		February 2016	
<p>*PV-10 is the present value of estimated future oil and gas revenues, net of estimated direct expenses, discounted at an annual discount rate of 10%; per 2013 10K SEC Filing</p> <p>1) Per Bloomberg as of 12/31/2013</p> <p>2) Per 2013 10K SEC Filing, price used to calculate present value</p> <p>3) Per most recent SEC Filings and Company Presentations</p> <p>4) Per Bloomberg assuming current bond prices listed above</p>				

The first part of the table above shows the Enterprise Value at December 31, 2013 for two companies – Comstock Resources and Exco Resources. Enterprise Value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. Enterprise Value is a measure of what stock and bond investors think the entire company is worth.

Lower down on the table is a comparison of these companies' Enterprise Values at December 31, 2013 to the current price of their senior bank debt and their first or second lien bonds. The first or second-lien paper for these companies is currently yielding 42.6% – 49.8%, an attractive rate of return. When you purchase such a senior paper during normal times, the yield to maturity is frequently far below 10%. If the company goes bankrupt, and has little or no bank debt (which is senior to the first or second-lien bonds), most often the second-lien or even first-lien holders will end up owning 90% of the restructured company. Investors today can buy into these papers (first or second-lien) at a fraction of what Enterprise Values were at December 31, 2013 and also below that of the PV-10 value for the year ended 2015. For example, an investor can pay \$0.40 for a unit of CRK's secured bonds, which is equivalent to paying \$280 million in total for all its secured bonds. This is only 17% of CRK's Enterprise Value back in 2013. Although this is a simplified manner of looking at companies, it contains important and valuable information. These numbers are showing that regardless of what happens to the company going forward, you are more than likely to make a decent return on your investments.

We are looking to purchase more debt securities of oil and gas companies but our focus is on:

- 1) First or second-lien loans or notes;
- 2) Situations where the ability to add senior or issue pari-passu debt is significantly limited; and
- 3) If the company restructures or goes into bankruptcy, the recovery value of the bond is greater than the current price of the bond.

In the same vein, many stocks that we consider as undervalued went down even further. Let's discuss one of our biggest holdings, Resolute Forest Products.

Please note that all common shares of Resolute Forest Products were received as a result of debt restructuring.

### **Resolute Forest Products**

Resolute Forest Products (RFP) is primarily involved in newsprints, specialty papers, wood products and market pulp. As the downturn in global commodities intensified, RFP was not spared, hitting all four of the company's business segments. Management has concentrated on lowering the cost of every segment but this wasn't enough to compensate for the deterioration of prices in their respective markets.

It is hard for us to believe that RFP is trading as low as \$4 per share. At \$4 per share it means the market capitalization of the company is selling for less than US\$400 million dollars. The company has consolidated sales of close to \$4 billion and in each of its major business segments, it is a global leader. It is the biggest volume producer of wood products east of the Rockies, the third largest in North America for market pulp, the number one producer of newsprint in the world and the largest producer in North America of uncoated mechanical paper and an emerging tissue producer. With the exception of the wood products segment, which has revenues of approximately \$600 million, the other three segments each have revenues of approximately \$1 billion. Each of the four business segments could easily fetch at least \$400 million in a normal market.

In our opinion, the company's "normalized EBITDA (Earnings before interest, taxes, depreciation and amortization)" is approximately \$400 million. In other words, with RFP trading at \$4 per share, the market value of the company is being priced for about 1 times normalized EBITDA. The company does have net debt of approximately \$365 million, but even if you include net debt, the market is valuing the entire company for less than 2 times normalized EBITDA. It had cash of approximately \$300 million a year ago but used approximately \$156 million to acquire Atlas Paper and is spending \$270 million to convert some of its pulp mills in Calhoun, Tennessee to produce tissue papers.

A couple of years ago, it bought Fibrek Inc. for approximately \$126 million. So, if you add the bolt-in acquisitions of Fibrek (\$126 million), Atlas Paper (\$156 million) and its conversion to tissue paper (\$270 million), you end up with \$552 million. In addition, the company has tax loss carryforwards of approximately \$2 billion which it can use to offset future gains and income. All these factors lead us to believe that at current prices, RFP is very undervalued.

### **Other Matters**

**FOREIGN CURRENCY CONTRACTS:** The Fund hedged Canadian dollars against U.S. dollars at 1.3044. The notional amount was US\$20,000,000, and it is currently outstanding.

**CREDIT DEFAULT SWAPS:** None existed at December 31, 2015.

**CONSTANT MATURITY SWAPS:** None existed at December 31, 2015.

**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 12 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2015 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 18, 2016, the NAVPU of a Series A unit of the Fund was \$7.27 and the cash position was approximately 4.7% of net assets. The Fund is down 17.2% from the beginning of the year. In \$U.S., it is down 12.1%.

Except for the performance numbers of the Chou Bond Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

# CHOU BOND FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 39,205,914	\$ 36,301,542
Cash and cash equivalents	3,961,937	12,395,193
Receivable for units subscribed	—	20,687
Interest receivable	1,404,310	941,428
<b>Total assets</b>	<b>44,572,161</b>	<b>49,658,850</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	57,325	65,334
Payable for units redeemed	64,158	23,337
Distributions payable	61,619	68,010
Unrealized loss on forward contracts (note 8)	1,584,500	—
<b>Total liabilities</b>	<b>1,767,602</b>	<b>156,681</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 42,804,559</b>	<b>\$ 49,502,169</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 39,630,967	\$ 45,810,611
Series F	3,173,592	3,691,558
	<b>\$ 42,804,559</b>	<b>\$ 49,502,169</b>
Number of units outstanding (note 4):		
Series A	4,515,187	4,599,226
Series F	358,475	367,482
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 8.78	\$ 9.96
Series F	8.85	10.05
U.S. dollars:		
Series A	6.35	8.58
Series F	6.40	8.66

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors  
of Chou Associates Management Inc.:

*Francis Chou*



# CHOU BOND FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2015 and 2014

	2015	2014
Income:		
Interest for distribution purposes and other	\$ 4,634,026	\$ 3,621,377
Foreign currency gain on cash and other net assets	637,769	453,274
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	832,300	1,862,384
Net realized loss on held-for-trading investments	(105)	-
Change in unrealized depreciation on financial assets designated at fair value through profit or loss	(5,383,241)	(1,045,425)
Change in unrealized appreciation on held-for-trading investments	(1,584,500)	-
	(863,751)	4,891,610
Expenses:		
Management fees (note 5)	601,532	633,570
Custodian fees	51,640	54,751
Audit	14,462	5,475
Filing fees	4,532	-
Independent Review Committee fees	2,006	2,323
FundSERV fees	-	546
Legal fees	1,895	3,128
Transaction costs (note 6)	-	23,878
Valuation fees	2,345	-
	678,412	723,671
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (1,542,163)	\$ 4,167,939
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (1,429,635)	\$ 3,811,040
Series F	(112,528)	356,899
	\$ (1,542,163)	\$ 4,167,939
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.33)	\$ 0.88
Series F	(0.32)	1.00

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 45,810,611	\$ 38,761,019
Increase (decrease) in net assets attributable to unitholders of redeemable units	(1,429,635)	3,811,040
Proceeds from issue of units	1,233,503	8,322,832
Payments on redemption of units	(5,938,448)	(5,028,650)
Distributions of income to unitholders:		
Investment income	(3,412,872)	(2,695,544)
Reinvested distributions	3,367,808	2,639,914
Net assets attributable to unitholders of redeemable units, end of year	39,630,967	45,810,611
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	3,691,558	3,527,244
Increase (decrease) in net assets attributable to unitholders of redeemable units	(112,528)	356,899
Proceeds from issue of units	46,706	539,865
Payments on redemption of units	(436,320)	(720,070)
Distributions of income to unitholders:		
Investment income	(278,867)	(222,185)
Reinvested distributions	263,043	209,805
Net assets attributable to unitholders of redeemable units, end of year	3,173,592	3,691,558
Total net assets attributable to unitholders of redeemable units, end of year	\$ 42,804,559	\$ 49,502,169

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (1,542,163)	\$ 4,167,939
Adjustments for:		
Foreign currency gain on cash and other net assets	(637,769)	(453,274)
Net realized gain on financial assets at fair value through profit or loss	(832,300)	(1,862,384)
Change in unrealized appreciation on investments and derivatives	6,967,741	1,045,425
Change in non-cash operating working capital:		
Increase in interest receivable	(462,882)	(361,813)
Decrease in accrued expenses	(8,009)	(5,545)
Purchase of investments	(9,023,044)	(15,056,001)
Proceeds from sales of investments	1,567,731	9,256,883
Net cash used in operating activities	(3,970,695)	(3,268,770)
Cash flows from financing activities:		
Distributions paid to unitholders	(67,279)	(76,467)
Proceeds from redeemable units issued	1,300,896	8,857,010
Amount paid on redemption of redeemable units	(6,333,947)	(5,734,383)
Net cash generated from (used in) financing activities	(5,100,330)	3,046,160
Foreign currency gain on cash and other net assets	637,769	453,274
Increase (decrease) in cash and cash equivalents	(8,433,256)	230,664
Cash and cash equivalents, beginning of year	12,395,193	12,164,529
Cash and cash equivalents, end of year	\$ 3,961,937	\$ 12,395,193
Supplemental information:		
Interest received, net of withholding tax	\$ 4,171,144	\$ 3,259,564

See accompanying notes to financial statements.



# CHOU BOND FUND

## Schedule of Investments

December 31, 2015

	Number of Units	Cost	Fair value
<b>Equities*</b>			
Catalyst Paper Corporation**	108,606	\$ 47,448	\$ 255,224
Resolute Forest Products Inc.**	391,463	3,529,372	4,100,422
		3,576,820	4,355,646
<b>Bonds</b>			
Ascent Capital Group Inc., 4.000% conv., July 15, 2020	2,683,000	\$ 2,776,137	\$ 2,443,267
Atlanticus Holdings Corporation, 5.875%, Nov. 30, 2035	10,300,000	4,559,401	6,172,945
Avangardco Investments Public Limited, 10.000%, Oct. 29, 2015	2,806,750	2,773,518	1,962,045
Catalyst Paper Corporation, 11.000%, Oct. 30, 2017	2,153,667	1,745,066	2,026,420
Dex Media, Inc., 14.000%, Jan. 29, 2017	3,765,944	3,042,545	156,328
Dex Media West LLC, term loans Dec. 31, 2016	1,142,305	686,428	847,601
EXCO Resources Inc., 8.500%, Apr. 15, 2022	12,400,000	3,913,563	3,174,208
Fortress Paper Limited, 6.500%, Dec. 31, 2016	100,000	63,230	91,245
Fortress Paper Limited, 7.000%, conv., Dec. 31, 2019	4,659,000	2,621,102	2,770,008
Sandridge Energy Inc., 8.750%, June 1, 2020	9,000,000	4,644,959	3,798,257
Rainmaker Entertainment Inc., 8.000%, conv., Mar. 31, 2016	2,612,000	2,612,000	3,134,400
R.H. Donnelley Inc., term loans, Dec. 31, 2016	3,771,989	3,081,270	2,236,471
Taiga Building Products Limited, 14.000%, Sept. 1, 2020	1,712,000	1,705,899	1,883,200
Ukrlandfarming PLC, 10.875%, Mar. 26, 2018	6,000,000	5,305,314	4,153,873
		39,530,432	34,850,268
Total long		43,107,252	39,205,914
<b>Held-for-trading</b>			
Currency forward - Deliver USD/receive CAD Jan 25, 2016 @1.3044 on \$20,000,000 USD	-	-	(1,584,500)
Total held-for-trading		-	(1,584,500)
Total investments		43,107,252	37,621,414
Transaction costs		(4,302)	-
Portfolio total		\$ 43,102,950	\$ 37,621,414

\* Common shares unless indicated otherwise

\*\* Shares received from debt restructuring

See accompanying notes to financial statements.

# CHOU BOND FUND

Discussion of Financial Risk Management (continued)

Years ended December 31, 2015 and 2014

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## Investment objective and strategies:

The Fund's objective is to provide conservation of principal and income production with capital appreciation as a secondary consideration. The Fund invests primarily in Canadian and U.S. bonds. These bonds include, but are not limited to, Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield bonds. Investments may be made in bonds outside of Canada and the U.S.

The Fund seeks to achieve its investment objectives by investing in securities that it believes are undervalued. The Fund will generally be fully invested. A combination of investment strategies will be utilized in managing the portfolio including relative value trades, yield enhancement strategies and interest rate anticipation trades. Investments made by the Fund are not guaranteed. Fixed income securities issued by governments may decrease in value as a result of changes in interest rates. Fixed income securities issued by corporations may decrease in value due to general market conditions or credit risks associated with the issuer.

## Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

(a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at December 31, 2015, the Fund invested approximately 33.56% (2014 - 56.5%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. As at December 31, 2015, the Fund invested approximately 47.85% (2014 - 36.66%) of its net assets in non-rated bonds.

(b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity:

Debt instruments by maturity date:

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	2015	2014
Less than 1 year	\$ 3,134,400	\$ 1,957,398
1 - 3 years	11,473,982	11,530,808
3 - 5 years	10,894,732	4,693,496
Greater than 5 years	9,347,153	9,788,147

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# CHOU BOND FUND

Discussion of Financial Risk Management (continued)

Years ended December 31, 2015 and 2014

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## Financial risk management (continued):

As at December 31, 2015, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$279,164 (2014 - \$1,487,000).

In practice, the actual trading results may differ and the difference could be material.

(c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 10.18% (2014 - 16.80%) of the Fund's net assets held at December 31, 2015 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2015, the net assets of the Fund would have increased or decreased by approximately \$216,782, or 0.51% (2014 - \$416,585, or 0.80%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

(d) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2015 and 2014 are as follows:

2015	Foreign currency forward contract	Financial instruments	Percentage of NAV
United States dollar	\$ 20,000,000	\$ 8,659,317	20.2

2014	Foreign currency forward contract	Financial instruments	Percentage of NAV
United States dollar	\$ -	\$ 32,614,905	65.9

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash, cash equivalents and investments). Other financial assets (including interest receivable and receivable for units subscribed) and financial liabilities (including accrued expenses, payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$86,593 (2014 - \$326,000).

In practice, the actual trading results may differ and the difference could be material.

## CHOU RRSP FUND

(unaudited)

March 18, 2016

Dear Unitholders of Chou RRSP Fund,

After the distribution of 1.40 per unit, the net asset value per unit (“NAVPU”) of a Series A unit of Chou RRSP Fund at December 31, 2015 was \$29.40 compared to \$35.33 at December 31, 2014, a decrease of 12.8%; during the same period, the S&P/TSX Total Return Index decreased 8.3% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was down 26.9% while the S&P/TSX Total Return Index decreased 23.0%.

The table shows our 1-year, 3-year, 5-year, 10-year, 15-year and 20-year annual compound rates of return.

<b>December 31, 2015 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou RRSP (\$CAN)	-12.8%	6.5%	5.1%	3.3%	7.9%	10.5%
S&P/TSX (\$CAN)	-8.3%	4.6%	2.3%	4.4%	5.1%	7.6%
Chou RRSP (\$U.S.) <sup>5</sup>	-26.9%	-4.6%	-1.6%	1.5%	8.4%	10.4%
S&P/TSX (\$U.S.)	-23.0%	-6.3%	-4.2%	2.6%	5.7%	7.5%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the 2015 Results

The weakness of the Canadian dollar against the U.S. dollar had a positive impact on the results of the Fund. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2014, one U.S. dollar was worth approximately \$1.16 Canadian, whereas one year later, on December 31, 2015, one U.S. dollar was worth approximately \$1.38 Canadian.

The equity securities of Blackberry Ltd., and Rainmaker Entertainment Inc., as well as the debt securities of Taiga Building Products Limited were positive contributors to the Fund’s performance.

The largest equity decliners for the year ended December 31, 2015 included Resolute Forest Products, Interfor Corporation, Sears Canada Inc., Torstar Corporation and TVA Group Inc., as well as the warrants of Bank of America Corporation.

During 2015, the Fund decreased its holdings in Interfor Corporation and Rainmaker Entertainment Inc. Ridley Inc. was acquired by Alltech Inc. for \$40.75 per common share. Our average cost for Ridley Inc. was approximately \$8.02 per common share.

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<sup>5</sup>The alternative method of purchasing Chou RRSP Fund in \$U.S. has been offered since September 2005. Performance for years prior to September 2005 is based on the \$U.S. equivalent conversion of the results of the Chou RRSP Fund (\$CAN). The investments in the Chou RRSP Fund (\$CAN) are the same as the investments in Chou RRSP Fund (\$U.S.) except for the currency applied.

The Fund increased its equity holdings in Dundee Corporation, Reitmans Canada Ltd. and Reitmans Canada Ltd. Class A shares.

The Fund also initiated a position in the Term Loan for Fuel Industries Inc. The interest rate is 14% and expires on February 9, 2016. The Fund also purchased equity securities of Canadian Oil Sands Ltd.

### Portfolio Commentary

Throughout 2015 and the early part of 2016, stock and bond markets were not cheap in general but some sectors were hit so badly that it makes sense for us to dig deeper when looking at them. For example, let's take a look at the oil and gas sector whose stocks and bonds have fallen dramatically over the past few years:

<i>(US\$ In millions, excluding stock, bond and commodity prices)</i>	Comstock		Exco	
	Resources ("CRK")		Resources ("XCO")	
	2013	2015	2013	2015
Stock Price <sup>1</sup>	\$18.29		\$5.31	
Enterprise Value <sup>1</sup>	\$1,668		\$2,999	
PV-10*	\$1,100	\$372	\$1,300	\$402
PV-10 Oil Price <sup>2</sup>	\$96.94	\$46.88	\$96.78	\$50.28
PV-10 Nat Gas Price <sup>2</sup>	\$3.67	\$2.34	\$3.67	\$2.59
Total Senior Bank Debt <sup>3</sup>		\$0		\$95
Total Outstanding Secured Bonds <sup>3</sup> (1st or 2nd Lien)		700M		700M
Current Price of Bonds		\$0.40		\$0.40
"Market Value" of Secured Bonds <sup>3</sup>		\$280		\$280
Total Sr Bank Debt + "MV" of Secured Bonds		\$280		\$375
Total Sr Bank Debt + "MV" of Secured Bonds as % of 2013 Enterprise Value		16.8%		12.5%
Current YTM of Secured Bonds <sup>4</sup> (1st or 2nd Lien)		42.6%		49.8%
Most Recent Company Information:	December 2015		February 2016	
<p>*PV-10 is the present value of estimated future oil and gas revenues, net of estimated direct expenses, discounted at an annual discount rate of 10%; per 2013 10K SEC Filing</p> <p>1) Per Bloomberg as of 12/31/2013</p> <p>2) Per 2013 10K SEC Filing, price used to calculate present value</p> <p>3) Per most recent SEC Filings and Company Presentations</p> <p>4) Per Bloomberg assuming current bond prices listed above</p>				

The first part of the table above shows the Enterprise Value at December 31, 2013 for two companies – Comstock Resources and Exco Resources. Enterprise Value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. Enterprise Value is a measure of what stock and bond investors think the entire company is worth.

Lower down on the table is a comparison of these companies' Enterprise Values at December 31, 2013 to the current price of their senior bank debt and their first or second lien bonds. The first or second-lien paper for these companies is currently yielding 42.6% – 49.8%, an attractive rate of return. When you purchase such a senior paper during normal times, the yield to maturity is frequently far below 10%. If the company goes bankrupt, and has little or no bank debt (which is senior to the first or second-lien bonds), most often the second-lien or even first-lien holders will end up owning 90% of the restructured company. Investors today can buy into these papers (first or second-lien) at a fraction of what Enterprise Values were at December 31, 2013 and also below that of the PV-10 value for the year ended 2015. For example, an investor can pay \$0.40 for a unit of CRK's secured bonds, which is equivalent to paying \$280 million in total for all its secured bonds. This is only 17% of CRK's Enterprise Value back in 2013. Although this is a simplified manner of looking at companies, it contains important and valuable information. These numbers are showing that regardless of what happens to the company going forward, you are more than likely to make a decent return on your investments.

We are looking to purchase more debt securities of oil and gas companies but our focus is on:

- 1) First or second-lien loans or notes;
- 2) Situations where the ability to add senior or issue pari-passu debt is significantly limited; and
- 3) If the company restructures or goes into bankruptcy, the recovery value of the bond is greater than the current price of the bond.

In the same vein, many stocks that we consider as undervalued went down even further. Let's discuss one of our biggest holdings, Resolute Forest Products.

### **Resolute Forest Products**

Resolute Forest Products (RFP) is primarily involved in newsprints, specialty papers, wood products and market pulp. As the downturn in global commodities intensified, RFP was not spared, hitting all four of the company's business segments. Management has concentrated on lowering the cost of every segment but this wasn't enough to compensate for the deterioration of prices in their respective markets.

It is hard for us to believe that RFP is trading as low as \$4 per share. At \$4 per share it means the market capitalization of the company is selling for less than US\$400 million dollars. The company has consolidated sales of close to \$4 billion and in each of its major business segments, it is a global leader. It is the biggest volume producer of wood products east of the Rockies, the third largest in North America for market pulp, the number one producer of newsprint in the world and the largest producer in North America of uncoated mechanical paper and an emerging tissue producer. With the exception of the wood products segment, which has revenues of approximately \$600 million, the other three segments each have revenues of approximately \$1 billion. Each of the four business segments could easily fetch at least \$400 million in a normal market.

In our opinion, the company's "normalized EBITDA (Earnings before interest, taxes, depreciation and amortization)" is approximately \$400 million. In other words, with RFP trading at \$4 per share, the market value of the company is being priced for about 1 times normalized EBITDA. The company does have net debt of approximately \$365 million, but even if you include net debt, the market is valuing the entire company for less than 2 times normalized EBITDA. It had cash of approximately \$300 million a year ago but used approximately \$156 million to acquire Atlas Paper and is spending \$270 million to convert some of its pulp mills in Calhoun, Tennessee to produce tissue papers.

A couple of years ago, it bought Fibrek Inc. for approximately \$126 million. So, if you add the bolt-in acquisitions of Fibrek (\$126 million), Atlas Paper (\$156 million) and its conversion to tissue paper (\$270 million), you end up with \$552 million. In addition, the company has tax loss carryforwards of approximately \$2 billion which it can use to offset future gains and income. All these factors lead us to believe that at current prices, RFP is very undervalued.

### **Deflation vs Inflation**

In the history of mankind, we have never really been in a kind of environment where one could make an equally strong case for deflation or for inflation. The arguments for both sides are quite compelling.

If you believe in deflation, these are the points one could make:

- 1) China, the recent locomotive of global growth, is lurching ahead at an ever slowing speed. Its economy and financial markets in 2015 went through tremendous turmoil, affecting all markets worldwide. China has been a huge success story for the last 30 years as it was responsible for taking away large amounts of manufacturing jobs from developed economies. Its economy grew annually at a double digit rate and we thought this growth would not show any signs of slowing down appreciably in the near future. Even after the Great Recession of 2008, China's economy grew at a pretty good clip. However, most of the growth occurred not because of demand but due to enormous spending by all sectors of its government on unneeded housing and infrastructure. As a result, if one were to go to China now, he would notice a tremendous number of ghost cities with empty houses, empty highways and no people;
- 2) As shown by the weakness in commodity prices, it will take a while for demand to absorb all the excess capacity built up over the last 20 years;
- 3) Some sovereign bonds carry negative interest rates;
- 4) The recovery of the global economy from the Great Recession of 2008 has been sluggish at best.

On the flip side, one could make an equally compelling case for inflation to roar back some time in the future:

- 1) How low could interest rates go? At negative yields they can't go much below zero;
- 2) Although the recovery has been anemic, at least in nominal terms there has been some recovery;
- 3) The velocity of money for M2 is at an all-time low. This can be further highlighted if we hypothesize about what would happen if M2 moved back up to the historical average. If a regression to the mean was to occur, the price levels could be 25% higher than what it is today.

Carrying this logic one step further, with the current levels of money-printing growing at approximately 7.2% annualized, this could see a potential price level increase of 50%, if the velocity of money were to move back up to the historical average;

4) Normal market forces, the incessant balancing of supply and demand, will bring everything into equilibrium as the boom-bust cycle produced by artificial credit creation works itself out, but you cannot ‘un-print’ money.

The current situation reminds me of a story about an exchange between Winston Churchill and MP Bessie Braddock:

At one time when Churchill was drunk, Bessie Braddock yelled at him, "Winston, you are drunk, and what’s more, you are disgustingly drunk."

Churchill retorted, “My dear, you are ugly, and what’s more, you are disgustingly ugly. But tomorrow I shall be sober and you will still be disgustingly ugly.”

That's how I feel about deflation and inflation (eventual consequences of printing too much money).

### **Volatility & Returns**

As you are well aware, the cardinal principle underlying the investments in the Fund is to pay far less than what the company is worth, measured by sustainable earning power and/or hard assets that are not depreciating in value. In other words, we want to have an adequate “Margin of Safety” and this concept is what distinguishes investment from speculation.

This table is an abridged version of the table produced on the back cover of the annual report.

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
⋮	⋮
Dec.31, 1998	38,806
Dec.31, 1999	36,217
Dec.31, 2000	42,188
Dec.31, 2001	49,370
Dec.31, 2002	65,095
⋮	⋮
Dec.31, 2006	104,479
Dec.31, 2007	94,817
Dec.31, 2008	54,629
Dec.31, 2009	69,818
Dec.31, 2010	102,367
⋮	⋮
Dec.31, 2015	<b>\$131,417</b>



In the years 1999 and 2008, we had negative returns, but we were able to bounce back in the following years. An investor who put in \$10,000 on December 31, 1986 would have an account worth \$131,417 as of December 31, 2015. Even if one invested at a high, let's say in 1998 or 2006, you would have still done reasonably well long term. When you are a value investor, you have no control on short-term volatility. While the future is never certain, we believe the margin of safety principle has served us well and will continue to serve us well in the future. However, the stock markets are highly volatile and there will be periods or years where we may have negative returns. The current environment reminds us of 1999 – stocks that were expensive became more expensive and stocks that were cheap became cheaper. Eventually, however, the cheap stocks will move closer to their intrinsic value. We would like to encourage our unitholders to review and understand the table as it may help them see where they stand. As you can see, we have done reasonably well in the long run.

Nevertheless, we would also stress that the amount of money that investors choose to invest in the Fund should only be to the extent that they can afford to experience a temporary decline of **40%** or more of their investment. This may sound drastic but sleeping well and not getting too anxious are also important considerations both for the manager and the investor.

**Other Matters**

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2015 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 18, 2016, the NAVPU of a Series A unit of the Fund was \$24.59 and the cash position was approximately 16.9% of net assets. The Fund is down 16.4% from the beginning of the year. In \$U.S., it is down 11.2%.

Except for the performance numbers of the Chou RRSP Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU RRSP FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 64,126,157	\$ 89,336,509
Held-for-trading investments (note 8)	6,727,484	6,778,821
Cash and cash equivalents	33,273,551	32,417,012
Receivable for units subscribed	35,230	47,500
Other receivable	—	12,895
Interest receivable	298,796	38,157
<b>Total assets</b>	<b>104,461,218</b>	<b>128,630,894</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	199,692	220,187
Payable for units redeemed	91,258	64,712
Distributions payable	85,967	—
<b>Total liabilities</b>	<b>376,917</b>	<b>284,899</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 104,084,301</b>	<b>\$ 128,345,995</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 99,334,071	\$ 123,027,948
Series F	4,750,230	5,318,047
	<b>\$ 104,084,301</b>	<b>\$ 128,345,995</b>
Number of units outstanding (note 4):		
Series A	3,379,086	3,486,572
Series F	161,443	150,658
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 29.40	\$ 35.29
Series F	29.42	35.30
U.S. dollars:		
Series A	21.25	30.41
Series F	21.26	30.42

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors  
of Chou Associates Management Inc.:

*Francis Chou*

*[Signature]*

# CHOU RRSP FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2015 and 2014

	2015	2014
Income:		
Interest for distribution purposes and other	\$ 1,919,380	\$ 983,887
Dividends	1,510,491	1,534,205
Securities lending income (note 7)	69,448	77,779
Foreign currency gain on cash and other net assets	2,367,327	857,934
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	13,108,293	6,429,518
Net realized gain (loss) on held-for-trading investments	(132)	217,569
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	(32,377,900)	7,745,106
Change in unrealized appreciation (depreciation) on held-for-trading investments	(51,337)	1,021,545
	(13,454,430)	18,867,543
Expenses:		
Management fees (note 5)	1,934,147	2,054,789
Custodian fees	138,501	138,700
Audit	32,910	10,950
Filing fees	14,600	14,600
Independent Review Committee fees	5,172	6,225
FundSERV fees	-	10,950
Legal fees	9,107	8,678
Transaction costs (note 6)	47,233	36,494
Valuation fees	10,950	-
	2,192,620	2,281,386
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (15,647,050)	\$ 16,586,157
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (14,964,822)	\$ 15,907,234
Series F	(682,228)	678,923
	\$ (15,647,050)	\$ 16,586,157
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (4.46)	\$ 4.40
Series F	(4.26)	4.46

See accompanying notes to financial statements.

# CHOU RRSP FUND

Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 123,027,948	\$ 117,867,041
Increase (decrease) in net assets attributable to unitholders of redeemable units	(14,964,822)	15,907,234
Proceeds from issue of units	2,943,979	4,561,470
Payments on redemption of units	(11,612,056)	(15,307,797)
Distributions of income to unitholders:		
Investment income	(1,196,736)	—
Capital gains	(3,322,461)	—
Reinvested distributions	4,458,219	—
Net assets attributable to unitholders of redeemable units, end of year	99,334,071	123,027,948
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	5,318,047	4,760,990
Increase (decrease) in net assets attributable to unitholders of redeemable units	(682,228)	678,923
Proceeds from issue of units	1,130,436	1,100,924
Payments on redemption of units	(991,036)	(1,222,790)
Distributions of income to unitholders:		
Investment income	(85,198)	—
Capital gains	(156,615)	—
Reinvested distributions	216,824	—
Net assets attributable to unitholders of redeemable units, end of year	4,750,230	5,318,047
<b>Total net assets attributable to unitholders of redeemable units, end of year</b>	<b>\$ 104,084,301</b>	<b>\$ 128,345,995</b>

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ (15,647,050)	\$ 16,586,157
Adjustments for:		
Foreign currency gain on cash and other net assets	(2,367,327)	(857,934)
Net realized gain on financial assets at fair value through profit or loss	(13,108,293)	(6,647,087)
Change in unrealized depreciation (appreciation) on investments and derivatives	32,429,237	(8,766,651)
Change in non-cash operating working capital:		
Increase in interest receivable	(260,639)	-
Decrease (increase) in other receivable	12,895	(9,697)
Increase (decrease) in accrued expenses	(20,495)	2,474
Purchase of investments	(14,581,316)	(4,561,474)
Proceeds from sales of investments	20,522,061	13,029,916
Net cash generated from operating activities	6,979,073	8,775,704
Cash flows from financing activities:		
Distributions paid to unitholders	-	(14,669)
Proceeds from redeemable units issued	4,086,685	5,631,394
Amount paid on redemption of redeemable units	(12,576,546)	(16,553,939)
Net cash used in financing activities	(8,489,861)	(10,937,214)
Foreign currency gain on cash and other net assets	2,367,327	857,934
Increase (decrease) in cash and cash equivalents	856,539	(1,303,576)
Cash and cash equivalents, beginning of year	32,417,012	33,720,588
Cash and cash equivalents, end of year	\$ 33,273,551	\$ 32,417,012
Supplemental information:		
Interest received, net of withholding tax	\$ 1,658,741	\$ 983,887
Dividends received, net of withholding tax	1,510,491	1,534,205

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Schedule of Investments

December 31, 2015

	Number of Shares	Cost	Fair value
<b>Equities*</b>			
Blackberry Ltd.	529,040	\$ 4,122,657	\$ 6,792,874
Canadian Oil Sands Limited	348,000	2,209,767	2,877,960
Canfor Pulp Products Inc.	493,900	1,405,445	6,682,468
Danier Leather Inc.	679,200	6,453,777	991,632
Dundee Corporation, Class "A" SV	300,000	3,060,351	1,368,000
Interfor Corporation	425,500	2,530,493	5,974,020
Overstock.com Inc.	151,976	3,166,145	2,582,351
Rainmaker Entertainment Inc.	936,800	1,930,473	234,200
Reitmans (Canada) Limited	348,600	1,914,063	1,404,858
Reitmans (Canada) Limited, Class "A" NV	690,800	3,758,099	2,811,556
Resolute Forest Products	624,188	10,166,745	6,538,126
Sears Canada Inc.	292,830	2,667,681	2,067,379
Taiga Building Products Ltd.	159,700	212,401	127,760
Torstar Corporation, Class "B" NV	1,259,416	27,484,475	3,501,176
TVA Group Inc.	783,128	11,323,079	3,132,512
TWC Enterprises Ltd.	200,400	1,077,639	2,104,200
		83,483,290	49,191,072
<b>Bonds</b>			
Taiga Building Products Ltd.	6,759,168	6,759,168	7,435,085
Fuel Industries Inc., term loans, Jan. 31, 2016	7,500,000	7,500,000	7,500,000
		14,259,168	14,935,085
Total long		97,742,458	64,126,157
<b>Held-for-trading</b>			
Bank of America Corporation, warrants, Class A, Jan, 16, 2019	836,825	2,984,789	6,727,484
Total held-for-trading		2,984,789	6,727,484
Total investments		100,727,247	70,853,641
Transaction costs		(370,562)	—
Portfolio total		\$ 100,356,685	\$ 70,853,641

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Discussion of Financial Risk Management

Years ended December 31, 2015 and 2014

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Canadian businesses considered by the Manager to be undervalued. The Fund may also invest in equity and debt instruments of U.S. and foreign businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

(a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at December 31, 2015, the Fund invested approximately 14.35% (2014 - 5.7%) of its net assets in non-rated debt instruments. These credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment.

(b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	2015	2014
Less than 1 year	\$ 7,500,000	\$ -
1 - 3 years	-	-
3 - 5 years	-	-
Greater than 5 years	7,435,085	7,333,697

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As at December 31, 2015, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$66,688 (2014 - \$119,000).

In practice, the actual trading results may differ and the difference could be material.

# CHOU RRSP FUND

Discussion of Financial Risk Management (continued)

Years ended December 31, 2015 and 2014

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## Financial risk management (continued):

(c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 47.26% (2014 - 63.90%) of the Fund's net assets held at December 31, 2015 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2015, the net assets of the Fund would have increased or decreased by approximately \$2,549,554, or 2.36% (2014 - \$4,100,000, or 3.20%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

(d) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2015 and 2014 are as follows:

2015	Financial instruments	Percentage of NAV
United States dollar	\$ 32,325,174	31.1

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2014	Financial instruments	Percentage of NAV
United States dollar	\$ 34,100,324	26.6

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash, cash equivalents and investments). Other financial assets (including interest receivable, receivable for units subscribed and other receivable) and financial liabilities (including accrued expenses, payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$323,252 (2014 - \$341,000).

In practice, the actual trading results may differ and the difference could be material.



# CHOU FUNDS

## Notes to Financial Statements

Years ended December 31, 2015 and 2014

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### 1. Formation of the Chou Funds:

The individual funds comprising the family of Chou Funds (the "Chou Funds" or the "Funds") are open-ended investment mutual fund trusts formed pursuant to Declarations of Trust under the laws of the Province of Ontario. Chou Associates Management Inc. is the Manager and Trustee of the Chou Funds. The address of the Funds' registered office is: 110 Sheppard Avenue East, Suite 301, Box 18, Toronto, Ontario, M2N 6Y8.

The Funds were formed on the following dates:

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Chou Associates Fund	September 1, 1986
Chou Asia Fund	August 26, 2003
Chou Europe Fund	August 26, 2003
Chou Bond Fund	August 10, 2005
Chou RRSP Fund	September 1, 1986

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### 2. Significant accounting policies:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The policies applied in these financial statements are based on IFRS issued and outstanding as of March 23, 2016, which is the date on which the financial statements were authorized for issue by the Manager.

The following is a summary of significant accounting policies used by the Funds:

#### (a) Recognition, initial measurement and classification:

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are initially recognized on the trade date, at fair value, with transaction costs recognized in profit or loss. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The Funds classify financial assets and financial liabilities into the following categories:

Financial assets at FVTPL:

- Held-for-trading: derivative financial instruments; and
- Designated as at FVTPL: debt securities and equity investments.

Financial liabilities at FVTPL:

- Held-for-trading: securities sold short and derivative financial instruments.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

All other financial assets and financial liabilities are measured at amortized cost and are classified as loans and receivables and other financial liabilities, respectively. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The Funds' obligations for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting dates.

### (b) Fair value measurement:

When available, the Funds measure the fair value of a financial instrument using the quoted price in an active market for that instrument. The Funds measure instruments quoted in an active market at the last traded market price.

Bonds and debentures are valued at their last evaluated bid price received from recognized investment dealers for long positions and their last evaluated ask price for short positions.

If there is no quoted price in an active market, then the Funds use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Financial assets classified as loans and receivables are carried at amortized cost using the effective interest rate method, less impairment losses, if any.

There are no differences between the Funds' method for measuring fair value for financial reporting purposes and that for the purposes of calculating net asset value for unitholder transactions.

### Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Funds neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

The Funds derecognize a financial liability when its contractual obligations are discharged, or cancelled, or expired.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (c) 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 Funds have made in preparing the financial statements:

#### (i) Fair value measurement of held-for-trading securities and securities not quoted in an active market:

The Funds hold financial instruments that are not quoted in active markets, including held-for-trading securities. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Funds may value positions using their own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Funds consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 8 for further information about the fair value measurement of the Funds' financial instruments.

#### (d) Cost of investments:

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. Investment transactions are accounted for as of the trade date. These financial statements are presented in Canadian dollars, which is the Funds' functional currency.

#### (e) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Funds have a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

(f) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. In accordance with IFRS, transaction costs are expensed and are included in transaction costs in the statements of comprehensive income (loss).

(g) Cash and cash equivalents:

Cash and cash equivalents consist of cash held at a Canadian bank.

(h) Investment transactions and income recognition:

All investment transactions are reported on the business day the order to buy or sell is executed.

Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment trust on the schedule of investments.

The interest for distribution purposes shown on the statements of comprehensive income (loss) represents the coupon interest received by the Funds accounted for on an accrual basis. The Funds do not amortize premiums paid or discounts received on the purchase of fixed income securities. Dividend income and distributions from investment trusts are recognized on the ex-dividend dates.

(i) Foreign exchange:

Securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on each valuation day. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the exchange rates prevailing on the respective dates of such transactions. Realized and unrealized foreign exchange gains (losses) on investments are included in realized gain (loss) on sale of investments and change in unrealized appreciation (depreciation) on investments, respectively, in the statements of comprehensive income (loss).

(j) Derivative transactions:

The Manager may use options to hedge against losses from changes in the prices of the Funds' investments instead of buying and selling securities directly. There can be no assurance that the hedging strategies will be effective. Losses may also arise if the counterparty does not perform under the contract.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

Warrants:

The cost of warrants is included in held-for-trading investments on the statements of financial position. The unrealized gain or loss is reflected in the statements of comprehensive income (loss) in unrealized gain (loss) on held-for-trading investments.

(k) Multi-series funds:

Where a Fund offers more than one series of units, the realized gains/losses from the sale of investments, changes in unrealized gains (losses) on investments, income and expenses that are common to the Fund as a whole, are allocated daily to each series based on the proportionate share of the net asset value of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's net asset value of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as to not affect the net asset value of the other series.

(l) Valuation of Fund units:

The net assets attributable to holders of redeemable units of each Fund are computed by dividing the net assets attributable to holders of a series of units by the total number of units of the series outstanding at the time. The net assets attributable to holders of redeemable units are determined at the close of business each Friday.

(m) Securities lending income:

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the statements of comprehensive income (loss) of the Funds and is recognized on an accrual basis.

(n) Classification of redeemable units issued by the Fund:

The Funds' redeemable units entitle unitholders the right to redeem their interest in the Funds for cash equal to their proportionate share of the net asset value of the Funds, amongst other contractual rights. These redeemable units involve multiple contractual obligations on the part of the Funds and, therefore, meet the criteria for classification as financial liabilities. The Funds' obligations for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting dates.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (o) Future accounting standards:

IFRS 9 was issued by the IASB in November 2009 and will replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. In October 2010, the IASB issued a revised version of IFRS 9. The revised standard adds guidance on the classification and measurement of financial liabilities. The issued installments of IFRS 9 have an effective date of January 1, 2018. The Funds continue to evaluate the impact of IFRS 9 on their financial statements, particularly with regard to the recording of its investments.

## 3. Financial instruments and risk management:

Investment activities of the Funds expose them to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The level of risk depends on each of the Funds' investment objectives and the type of securities each Fund invests in. Funds that invest in underlying funds are also exposed to indirect financial risks in the event that the underlying funds are exposed to these risks.

The Manager of the Funds seeks to minimize these risks by managing the security portfolios of the Funds on a daily basis according to market events and the investment objectives of the Funds. CPA Canada Handbook disclosures that are specific to each of the Funds are presented in the discussion on financial risk management under the schedule of investments. The sensitivity analysis shown in the discussion on financial risk management may differ from actual results and the difference could be significant.

The Manager maintains a risk management practice that includes monitoring compliance with investment restrictions to ensure that the Funds are being managed in accordance with the Funds' stated investment objectives, strategies and securities regulations. The risk positions noted below are monitored by the Manager on a regular basis.

### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. The fair value of a financial instrument takes into account the credit rating of its issuer, and accordingly, represents the maximum credit risk exposure of a Fund. The Funds' main credit risk concentration is in debt securities and trading derivative instruments which are disclosed in the respective Funds' schedule of investments. All transactions in securities are settled or paid for upon delivery through brokers. As such, credit risk is considered minimal in the Funds on investment transactions, as delivery of securities sold is made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

Margin has been deposited with a highly credit worth financial institution with respect to currency forwards. The amounts have not been offset against the value of the derivatives. The margin of 5% is included in cash and cash equivalents.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 3. Financial instruments and risk management (continued):

The Funds have provided the prime broker with a general lien over the financial assets held in custody as security for the prime broker's exposure relating to provision of custody services to the Funds. The terms under which the general lien is provided are usual and customary for prime broker agreements.

(b) Interest rate risk:

Interest rate risk is the risk that the fair value of the Funds' interest-bearing investments will fluctuate due to changes in the prevailing levels of market interest rates. The Funds' exposure to interest rate risk is concentrated in investments in debt securities (such as bonds and debentures or short-term instruments) and interest rate held-for-trading instruments, if any. Other assets and liabilities are short-term in nature and are non-interest bearing. There is minimal sensitivity to interest rate fluctuations on cash and cash equivalents invested at short-term market interest rates.

(c) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents and foreign currency derivative instruments) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Funds. Therefore, the Funds' financial instruments that are denominated in other currencies will fluctuate due to changes in the foreign exchange rates of those currencies in relation to the Funds' functional currency.

(d) Liquidity risk:

Liquidity risk is the risk that the Funds may not be able to settle or meet their obligations on time or at a reasonable price. The Funds are exposed to redemptions as units are redeemable on demand and unitholders may redeem their units on each valuation date. Therefore, in accordance with the Funds' Simplified Prospectus, the Funds invest their assets in investments that are traded in an active market and can be readily disposed. In addition, each Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The Funds may, from time to time, invest in securities that are not traded in an active market and may be illiquid.

(e) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. The Funds are exposed to market risk since all financial instruments held by the Funds present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value, except for options written and future contracts where possible losses can be unlimited.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 4. Holders of redeemable units:

The Manager considers the Funds' capital to consist of holders of redeemable units representing the net assets attributable to holders of redeemable units. The Funds' capital is managed in accordance with each of the Funds' investment objectives, policies, and restrictions, as outlined in the Funds' Prospectus. Changes in the Funds' capital during the period are reflected in the statements of changes in net assets attributable to unitholders of redeemable units. The Funds have no specific restrictions or specific capital requirements on the subscriptions and redemptions of redeemable units, other than minimum subscription requirements. The Funds endeavor to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. Holders of redeemable units are entitled to distributions when declared. Distributions on redeemable units of a Fund are reinvested in additional redeemable units of the Fund or at the option of the holders of redeemable units, paid in cash. Redeemable units of the Funds are redeemable at the option of the holders of redeemable units in accordance with the Prospectus.

	Series A		Series F	
	2015	2014	2015	2014
<b>Chou Associates Fund</b>				
Units outstanding, beginning of year	4,142,334	4,208,995	348,701	305,457
Add units issued during the year	242,232	284,940	99,218	121,061
Deduct units redeemed during the year	(333,062)	(374,681)	(53,797)	(81,238)
Units outstanding before income distribution	4,051,504	4,119,254	394,122	345,280
Add units issued on reinvested income	2,270	23,080	2,525	3,421
Units outstanding, end of year	4,053,774	4,142,334	396,647	348,701
<b>Chou Asia Fund</b>				
Units outstanding, beginning of year	2,109,279	2,291,643	102,055	79,004
Add units issued during the year	73,927	101,927	43,463	45,512
Deduct units redeemed during the year	(161,023)	(320,708)	(15,737)	(24,916)
Units outstanding before income distribution	2,022,183	2,072,862	129,781	99,600
Add units issued on reinvested income	298,429	36,417	19,292	2,455
Units outstanding, end of year	2,320,612	2,109,279	149,073	102,055
<b>Chou Europe Fund</b>				
Units outstanding, beginning of year	1,785,202	1,544,393	200,686	79,132
Add units issued during the year	124,449	739,909	154,503	169,145
Deduct units redeemed during the year	(403,922)	(501,541)	(39,002)	(49,384)
Units outstanding before income distribution	1,505,729	1,782,761	316,187	198,893
Add units issued on reinvested income	2	2,441	16	1,793
Units outstanding, end of year	1,505,731	1,785,202	316,203	200,686



# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 4. Holders of redeemable units (continued):

	Series A		Series F	
	2015	2014	2015	2014
<b>Chou Bond Fund</b>				
Units outstanding, beginning of year	4,599,226	4,020,643	367,482	362,911
Add units issued during the year	121,797	785,887	4,470	50,860
Deduct units redeemed during the year	(589,482)	(472,348)	(43,185)	(67,175)
Units outstanding before income distribution	4,131,541	4,334,182	328,767	346,596
Add units issued on reinvested income	383,646	265,044	29,708	20,886
Units outstanding, end of year	4,515,187	4,599,226	358,475	367,482
<b>Chou RRSP Fund</b>				
Units outstanding, beginning of year	3,486,572	3,811,998	150,658	154,729
Add units issued during the year	86,667	135,979	33,415	33,012
Deduct units redeemed during the year	(345,808)	(461,410)	(29,999)	(37,083)
Units outstanding before income distribution	3,227,431	3,486,567	154,074	150,658
Add units issued on reinvested income	151,655	5	7,369	–
Units outstanding, end of year	3,379,086	3,486,572	161,443	150,658

## 5. Related party transactions:

Management fees:

The Manager manages the Funds under a management agreement dated August 10, 2005. The Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A units and 1.0% of the net asset value of Series F units for all Funds other than the Chou Bond Fund on which the Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A units and 1.0% of the net asset value of Series F units. All other expenses attributable to the Funds are also payable out of the assets of the Funds.

During the year, management fees for each Fund are as follows:

	2015	2014
Chou Associates Fund	\$ 8,949,782	\$ 8,510,843
Chou Asia Fund	685,538	657,820
Chou Europe Fund	389,547	412,946
Chou Bond Fund	601,532	633,570
Chou RRSP Fund	1,934,147	2,054,789

As at year end, included in accrued expenses of each Fund are the following amounts due to the Manager, for management fees payable:

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 5. Related party transactions (continued):

	2015	2014
Chou Associates Fund	\$ 638,834	\$ 811,746
Chou Asia Fund	50,229	58,424
Chou Europe Fund	27,175	36,120
Chou Bond Fund	42,001	56,625
Chou RRSP Fund	131,455	184,008

The Manager, its officers and directors invest in units of the Funds from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts.

As at December 31, 2015, the following amounts of Series A redeemable units were held by employees of the Manager. No amounts of Series F redeemable units were held by employees of the Manager.

	2015	2014
Chou Associates Fund	175,537	175,287
Chou Asia Fund	405,999	353,013
Chou Europe Fund	535,761	535,761
Chou Bond Fund	2,117,414	1,935,292
Chou RRSP Fund	308,747	294,713

(a) Chou Associates Fund:

As at December 31, 2015, 4.3% of Class A redeemable units (2014 - 4.2%) were held by employees of the Manager.

(b) Chou Asia Fund:

As at December 31, 2015, 17.5% of Class A redeemable units (2014 - 16.9%) were held by employees of the Manager.

(c) Chou Europe Fund:

As at December 31, 2015, 35.6% of Class A redeemable units (2014 - 32.8%) were held by employees of the Manager.

(d) Chou Bond Fund:

As at December 31, 2015, 46.9% of Class A redeemable units (2014 - 44.8%) were held by employees of the Manager.

(e) Chou RRSP Fund:

As at December 31, 2015, 9.1% of Class A redeemable units (2014 - 8.8%) were held by employees of the Manager.

No amounts of Series F redeemable units were held by employees of the Manager.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Chou Associates Fund	\$ 129,305	\$ 130,987
Chou Asia Fund	31,050	15,479
Chou Europe Fund	—	5,925
Chou Bond Fund	—	23,878
Chou RRSP Fund	47,233	36,494

## 7. Securities lending:

The Funds have entered into a securities lending program with Citibank N.A. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include obligations of other governments with appropriate credit ratings. As at December 31, 2015, there were no securities on loan. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at December 31, 2014 are as follows:

	Market value of securities on loan	Market value of collateral received
Chou Associates Fund	\$ 78,705,537	\$ 80,379,741
Chou Asia Fund	37,551	39,447
Chou RRSP Fund	11,901,142	12,496,022

## 8. Fair value measurement:

Below is a classification of fair measurements of the Funds' investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 8. Fair value measurement (continued):

(a) Chou Associates Fund:

2015	Level 1	Level 2	Level 3	Total
Equities	\$ 300,302,932	\$ –	\$ 757,522	\$ 301,060,454
Bonds	–	8,508,085	–	8,508,085
Held-for-trading assets	65,497,338	–	–	65,497,338
Held-for-trading liabilities	(3,768,750)	–	–	(3,768,750)
<b>Total</b>	<b>\$ 362,031,520</b>	<b>\$ 8,508,085</b>	<b>\$ 757,522</b>	<b>\$ 371,297,127</b>

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 388,925,413	\$ –	\$ 1,884,536	\$ 390,809,949
Bonds	–	6,837,486	–	6,837,486
<b>Total</b>	<b>\$ 388,925,413</b>	<b>\$ 6,837,486</b>	<b>\$ 1,884,536</b>	<b>\$ 397,647,435</b>

During the years ended December 31, 2015 and 2014, there were no significant transfers between Level 1, Level 2, and Level 3.

Fair value measurements using Level 3 inputs:

	Equities	Total
Balance, December 31, 2014	\$ 1,884,536	\$ 1,884,536
Proceeds from sales during the year	(817,211)	(817,211)
Net realized gain on sale of investments	817,211	817,211
Change in unrealized depreciation in value of investments	(1,127,014)	(1,127,014)
<b>Balance, December 31, 2015</b>	<b>\$ 757,522</b>	<b>\$ 757,522</b>

	Equities	Total
Balance, January 1, 2013	\$ 1,521,775	\$ 1,521,775
Change in unrealized appreciation in value of investments	48,975	48,975
<b>Balance, December 31, 2014</b>	<b>\$ 1,570,750</b>	<b>\$ 1,570,750</b>

Level 3 securities were valued using third party broker quotes.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 8. Fair value measurement (continued):

Fair value measurements using Level 3 inputs:

	Equities - long		Total
Balance, December 31, 2013	\$ 1,570,750		\$ 1,570,750
Proceeds from sales during the year	(470,283)		(470,283)
Net realized gain on sale of investments	470,283		470,283
Change in unrealized appreciation in value of investments	313,786		313,786
Balance, December 31, 2014	\$ 1,884,536		\$ 1,884,536

(b) Chou Asia Fund:

2015	Level 1	Level 2	Level 3	Total
Equities	\$ 8,839,604	\$ -	\$ 2,232,193	\$ 11,071,797

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 19,152,040	\$ -	\$ 4,792	\$ 19,156,832

During the years ended December 31, 2015, \$2,232,193 was transferred from Level 1 to Level 3 because the security was delisted.

Fair value measurements using Level 3 inputs:

	Equities		Total
Balance, December 31, 2014	\$ 4,792		\$ 4,792
Net transfer in during the year	2,232,193		2,232,193
Change in unrealized appreciation in value of investments	(4,792)		(4,792)
Balance, December 31, 2015	\$ 2,232,193		\$ 2,232,193

Fair value measurements using Level 3 inputs:

	Equities		Total
Balance, December 31, 2013	\$ -		\$ -
Net transfer in during the year	228,548		228,548
Change in unrealized depreciation in value of investments	(223,756)		(223,756)
Balance, December 31, 2014	\$ 4,792		\$ 4,792

Level 3 securities were valued using the latest available price before the security was delisted.

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 8. Fair value measurement (continued):

(c) Chou Europe Fund:

2015	Level 1	Level 2	Level 3	Total
Equities	\$ 14,579,031	\$ 769,728	\$ –	\$ 15,348,759
Held-for-trading liabilities	(753,750)	–	–	(753,750)

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 13,236,471	\$ 504,240	\$ 410,727	\$ 14,151,438

Fair value measurements using Level 3 inputs:

	Equities	Total
Balance, December 31, 2014	\$ 410,727	\$ 410,727
Net transfer out during the year	(410,727)	(410,727)
Balance, December 31, 2015	\$ –	\$ –

Fair value measurements using Level 3 inputs:

	Equities	Total
Balance, December 31, 2013	\$ –	\$ –
Change in unrealized appreciation in value of investments	410,727	410,727
Balance, December 31, 2014	\$ 410,727	\$ 410,727

During the year ended December 31, 2015, \$410,727 was transferred from Level 3 to Level 1 as the underlying security became publicly listed.

(d) Chou Bond Fund:

2015	Level 1	Level 2	Level 3	Total
Equities	\$ 4,355,646	\$ –	\$ –	\$ 4,355,646
Bonds	–	34,850,268	–	34,850,268
Held-for-trading liabilities	(1,584,500)	–	–	(1,584,500)
Total	\$ 2,771,146	\$ 34,850,268	\$ –	\$ 37,621,414

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 8,331,693	\$ –	\$ –	\$ 8,331,693
Bonds	–	27,969,849	–	27,969,849
Total	\$ 8,331,693	\$ 27,969,849	\$ –	\$ 36,301,542

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 8. Fair value measurement (continued):

During the years ended December 31, 2015 and 2014, there were no significant transfers between Level 1, Level 2, and Level 3.

Fair value measurements using Level 3 inputs:

	Equities - long	Bonds	Total
Balance, December 31, 2013	\$ –	\$ 1,312,000	\$ 1,312,000
Net transfer out during the year	–	(1,312,000)	(1,312,000)
Balance, December 31, 2014	\$ –	\$ –	\$ –

### (e) Chou RRSP Fund:

2015	Level 1	Level 2	Level 3	Total
Equities	\$ 49,191,072	\$ –	\$ –	\$ 49,191,072
Bonds	–	7,435,085	7,500,000	14,935,085
Held-for-trading assets	6,727,484	–	–	6,727,484
Total	\$ 55,918,556	\$ 7,435,085	\$ 7,500,000	\$ 70,853,641

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 88,781,633	\$ –	\$ –	\$ 88,781,633
Bonds	–	7,333,697	–	7,333,697
Total	\$ 88,781,633	\$ 7,333,697	\$ –	\$ 96,115,330

During the years ended December 31, 2015 and 2014, there were no significant transfers between Level 1, Level 2, and Level 3.

Fair value measurements using Level 3 inputs:

	Bonds	Total
Balance, December 31, 2014	\$ –	\$ –
Investments purchased during the year	7,500,000	7,500,000
Balance, December 31, 2015	\$ 7,500,000	\$ 7,500,000

# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 9. Net gain (loss) from financial assets at fair value through profit or loss:

### (a) Chou Associates Fund:

	2015	2014
Financial instruments at FVTPL:		
Held-for-trading	\$ 4,089,674	\$ 11,815,101
Designated at inception	(33,583,241)	51,185,489
	(29,493,567)	63,000,590
Financial liabilities at FVTPL:		
Held-for-trading	-	845,133
	\$ (29,493,567)	\$ 63,845,723

### (b) Chou Asia Fund:

	2015	2014
Financial instruments at FVTPL:		
Held-for-trading	\$ (1,103,315)	\$ -
Designated at inception	4,046,619	3,525,346
	\$ 2,943,304	\$ 3,525,346

### (c) Chou Europe Fund:

	2015	2014
Financial instruments at FVTPL:		
Held-for-trading	\$ (753,688)	\$ -
Designated at inception	1,779,996	149,460
	\$ 1,026,308	\$ 149,460

### (d) Chou Bond Fund:

	2015	2014
Financial instruments at FVTPL:		
Held-for-trading	\$ (1,584,605)	\$ -
Designated at inception	720,854	5,334,387
	(863,751)	5,334,387
Financial liabilities at FVTPL:		
Held-for-trading	-	(442,777)
	\$ (863,751)	\$ 4,891,610



# CHOU FUNDS

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 9. Net gain (loss) from financial assets at fair value through profit or loss:

(e) Chou RRSP Fund:

	2015	2014
Financial instruments at FVTPL:		
Held-for-trading	\$ (51,469)	\$ 1,021,545
Designated at inception	(13,472,409)	17,563,710
	(13,523,878)	18,585,255
Financial liabilities at FVTPL:		
Held-for-trading	–	204,509
	\$ (13,523,878)	\$ 18,789,764

The realized gain (loss) from financial assets/liabilities at FVTPL represents the difference between the carrying amount of the financial asset/liability at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and the sale or settlement price.

The unrealized gain (loss) represents the difference between the carrying amount of a financial asset/liability at the beginning of the reporting period, or the transaction price if it was purchased during the reporting year, and its carrying amount at the end of the reporting year.

## 10. Income taxes:

The Chou Funds qualify as mutual fund trusts under the provisions of the Income Tax Act (Canada). General income tax rules apply to the Chou Funds; however, no income tax is payable by the Chou Funds on investment income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on undistributed net realized capital gains are refundable on a formula basis when units of the Funds are redeemed. Sufficient net income and realized capital gains of the Chou Funds, have been, or will be distributed to the unitholders such that no tax is payable by the Chou Funds and, accordingly, no provision for taxes has been made in the financial statements.

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains in future years.

The Funds have the following net realized capital losses available for utilization against net realized capital gains in future years:

Chou Europe Fund	\$ 3,265,651
Chou Bond Fund	10,137,200

Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)

**CHOU ASIA FUND**

**CHOU EUROPE FUND**

<b>Period ended</b>	<b>Total value of shares</b>	<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000	Dec.31, 2003	\$10,000
Dec.31, 2004	11,850	Dec.31, 2004	11,361
Dec.31, 2005	12,678	Dec.31, 2005	12,650
Dec.31, 2006	14,598	Dec.31, 2006	14,002
Dec.31, 2007	16,972	Dec.31, 2007	11,881
Dec.31, 2008	13,979	Dec.31, 2008	6,655
Dec.31, 2009	17,015	Dec.31, 2009	8,962
Dec.31, 2010	18,786	Dec.31, 2010	8,885
Dec.31, 2011	17,931	Dec.31, 2011	8,451
Dec.31, 2012	17,609	Dec.31, 2012	10,753
Dec.31, 2013	21,799	Dec.31, 2013	15,181
Dec.31, 2014	23,472	Dec.31, 2014	15,342
Dec.31, 2015	<b><u>\$24,760</u></b>	Dec.31, 2015	<b><u>\$15,629</u></b>

**CHOU BOND FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2005	\$10,000
Dec.31, 2006	12,200
Dec.31, 2007	11,870
Dec.31, 2008	7,396
Dec.31, 2009	10,534
Dec.31, 2010	13,980
Dec.31, 2011	11,408
Dec.31, 2012	12,884
Dec.31, 2013	15,928
Dec.31, 2014	17,502
Dec.31, 2015	<b><u>\$16,875</u></b>

**Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)**

**CHOU RRSP FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,818
Dec.31, 1988	12,281
Dec.31, 1989	14,350
Dec.31, 1990	12,722
Dec.31, 1991	13,284
Dec.31, 1992	14,500
Dec.31, 1993	16,727
Dec.31, 1994	14,961
Dec.31, 1995	17,808
Dec.31, 1996	21,735
Dec.31, 1997	32,741
Dec.31, 1998	38,806
Dec.31, 1999	36,217
Dec.31, 2000	42,188
Dec.31, 2001	49,370
Dec.31, 2002	65,095
Dec.31, 2003	72,658
Dec.31, 2004	82,362
Dec.31, 2005	95,294
Dec.31, 2006	104,479
Dec.31, 2007	94,817
Dec.31, 2008	54,629
Dec.31, 2009	69,818
Dec.31, 2010	102,367
Dec.31, 2011	81,150
Dec.31, 2012	108,860
Dec.31, 2013	132,029
Dec.31, 2014	150,763
Dec.31, 2015	<b><u>\$131,417</u></b>

NOTE: Rates of return are historical total returns, include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

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