

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

**ANNUAL REPORT 2018**

## 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	212,854
Dec.31, 2016	206,905
Dec.31, 2017	214,775
<b>Dec.31, 2018</b>	<b><u>\$197,699</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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Chou Associates Fund</b>							
Total Return	-8.0%	3.80%	-2.79%	-6.95%	12.06%	41.33%	26.96%
Management Expense Ratio (MER)	2.03%	1.89%	1.87%	1.82%	1.81%	1.82%	1.86%
Portfolio turnover rate	31.61%	26.03%	16.55%	4.06%	7.73%	9.14%	16.58%
Net Assets, end of the year (in millions)	\$ 285.8	\$ 376.8	\$ 448.8	\$ 513.7	\$ 557.5	\$ 502.4	\$ 426.9
<b>Chou Asia Fund</b>							
Total Return	-12.7%	21.12%	2.12%	5.49%	7.59%	23.90%	-1.80%
Management Expense Ratio (MER)	2.08%	1.92%	1.90%	1.86%	1.80%	1.81%	1.89%
Portfolio turnover rate	0.00%	0.96%	0.00%	13.56%	0.00%	1.55%	4.53%
Net Assets, end of the year (in millions)	\$ 22.5	\$ 29.4	\$ 35.6	\$ 40.1	\$ 39.2	\$ 39.7	\$ 37.7
<b>Chou Europe Fund</b>							
Total Return	-9.9%	3.59%	-18.71%	1.87%	0.94%	41.35%	27.24%
Management Expense Ratio (MER)	2.21%	1.95%	1.89%	1.95%	1.90%	*0.13%	*0.20%
Portfolio turnover rate	9.01%	21.06%	6.94%	0.00%	9.49%	0.00%	10.49%
Net Assets, end of the year (in millions)	\$ 7.4	\$ 7.6	\$ 13.7	\$ 21.8	\$ 23.3	\$ 18.9	\$ 7.8
<b>Chou Bond Fund</b>							
Total Return	14.9%	-1.61%	9.10%	-3.58%	9.77%	23.75%	12.95%
Management Expense Ratio (MER)	1.85%	1.56%	1.54%	1.45%	1.41%	1.52%	1.45%
Portfolio turnover rate	13.97%	36.79%	50.15%	4.44%	23.91%	13.42%	11.59%
Net Assets, end of the year (in millions)	\$ 17.9	\$ 27.8	\$ 42.6	\$ 42.8	\$ 49.5	\$ 42.2	\$ 44.0
<b>Chou RRSP Fund</b>							
Total Return	-7.1%	22.09%	-3.57%	-12.83%	14.20%	21.27%	34.15%
Management Expense Ratio (MER)	2.01%	1.92%	1.93%	1.84%	1.81%	1.82%	1.87%
Portfolio turnover rate	14.08%	23.45%	7.22%	16.76%	4.77%	11.50%	1.43%
Net Assets, end of the year (in millions)	\$ 66.2	\$ 80.4	\$ 88.8	\$ 104.1	\$ 128.5	\$ 122.3	\$ 112.3

\*Management fee after waivers and absorption

Please note that 'Net Assets' include both Series A and Series F of the Fund.

## TABLE OF CONTENTS

Chou Associates Fund Manager's Letter	1-7
Management's Responsibility for Financial Reporting	8
Independent Auditor's Report	9-11
<b>Chou Associates Fund</b>	
Statements of Financial Position	12
Statements of Comprehensive Income	13
Statements of Changes in Net Assets	14
Statements of Cash Flows	15
Schedule of Investments	16
Discussion of Financial Risk Management	17-18
<b>Chou Asia Fund</b>	
Fund Manager's Letter	19-21
Statements of Financial Position	22
Statements of Comprehensive Income	23
Statements of Changes in Net Assets	24
Statements of Cash Flows	25
Schedule of Investments	26
Discussion of Financial Risk Management	27-28
<b>Chou Europe Fund</b>	
Fund Manager's Letter	29-31
Statements of Financial Position	32
Statements of Comprehensive Income	33
Statements of Changes in Net Assets	34
Statements of Cash Flows	35
Schedule of Investments	36
Discussion of Financial Risk Management	37-38
<b>Chou Bond Fund</b>	
Fund Manager's Letter	39-42
Statements of Financial Position	43
Statements of Comprehensive Income	44
Statements of Changes in Net Assets	45
Statements of Cash Flows	46
Schedule of Investments	47
Discussion of Financial Risk Management	48-49
<b>Chou RRSP Fund</b>	
Fund Manager's Letter	50-53
Statements of Financial Position	54
Statements of Comprehensive Income	55
Statements of Changes in Net Assets	56
Statements of Cash Flows	57
Schedule of Investments	58
Discussion of Financial Risk Management	59-60
<b>Notes to Financial Statements</b>	61-85

**CHOU ASSOCIATES FUND**  
(unaudited)

March 14, 2019

Dear Unitholders of Chou Associates Fund,

As there were no distributions, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at December 31, 2018 was \$103.26 compared to \$112.18 at December 31, 2017, a decrease of 8.0%; during the same period, the S&P 500 Total Return Index increased 4.0% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Associates Fund was down 15.2% while the S&P 500 Total Return Index decreased 4.4%.

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, 2018 (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 Fund (\$CAN)	-8.0%	-2.4%	-0.6%	8.4%	5.0%	6.2%
S&P 500 (\$CAN)	4.0%	8.7%	14.0%	14.4%	8.1%	5.0%
Chou Associates Fund (\$US) <sup>1</sup>	-15.2%	-2.0%	-5.5%	7.1%	4.7%	6.9%
S&P 500 (\$US)	-4.4%	9.2%	8.5%	13.1%	7.8%	5.6%

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 2018 Results**

The main negative contributors to the Fund’s performance in 2018 were the equity holdings of Goldman Sachs Group, Citigroup, DaVita, Resolute Forest Products, and the 1.75 lien term loan of EXCO Resources.

The equity holdings of MBIA Inc., Berkshire Hathaway Inc., and Sanofi contributed positively to the Fund’s performance during the year.

The Canadian currency depreciated against the US dollar, which also positively affected the Fund.

During the period, the Fund reduced its holdings of Citigroup Inc., Goldman Sachs Group, MBIA Inc., Sanofi, Sears Holdings Corporation, and Ascent Capital Group. The Fund also sold

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<sup>1</sup> The alternative method of purchasing Chou Associates Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US 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 (\$US) except for the currency applied.

the equity holdings of Nokia OYJ, Overstock.com, and the bonds of Westmoreland Coal Company and the term loan of Dex Media.

New additions during the year included the equity stakes of Allegiant Travel Company, Bausch Health Companies Inc., and Spirit Airlines Inc.

### **Portfolio Commentary**

#### **U.S. Bank TARP Warrants and Equities**

In August 2018, the Fund elected to exercise all units of the JPMorgan Chase & Co. and Wells Fargo TARP warrants to purchase common shares on a cashless basis.

Overall, our investments in the TARP warrants of Wells Fargo and JPMorgan Chase & Co. have performed well since we bought them several years ago. Since August 2018, the warrants have been converted to their respective common shares.

<b>Warrants</b>	<b>Average Cost Base (“ACB”)</b>	<b>Price on Warrant Exercise Date*</b>	<b>% Increase from ACB</b>
Wells Fargo (Oct. 28, 2018)	\$8.02	\$25.79	222%
JPMorgan Chase & Co. (Oct. 28, 2018)	\$12.64	\$75.94	501%

*\*The warrants were exercised on August 28, 2018.*

The timing of the conversion also proved advantageous for the Fund as we received more shares than we would have at expiration. Here is a comparison of the number of common shares we received for Wells Fargo and JPMorgan Chase & Co. at the time of conversion in August 2018 compared to what we would have received upon expiration:

<b>Warrants</b>	<b>Actual Shares Received from Exercise in August 2018</b>	<b>Estimated Shares to be Received upon Expiration*</b>	<b>Percentage Increase</b>
Wells Fargo (Oct. 28, 2018)	434,543	334,000	30%
JPMorgan Chase & Co. (Oct. 28, 2018)	109,276	103,206	6%

*\*Expiration date or the last listing date two or three days prior.*

A unique characteristic of these warrants is the ability to convert them to common shares via a cashless transaction. Instead of paying for the exercise price of the warrants in cash at the time of conversion, these warrants are only payable by netting out the number of common shares issued upon exercise of the warrants.

## EXCO Resources

As of December 31, 2018, the Fund owned around US\$23.7 million worth of EXCO Resources (“EXCO”)’s 1.75 lien term loan (converted from the second-lien term loan held previously in Feb. 2017), with approximately US\$53.5 million in par value. This is one of the largest positions in the portfolio, comprising approximately 11% of the assets of the Fund (at market value).

On January 15, 2018, EXCO filed voluntary petitions for a court-supervised reorganization under Chapter 11 of the U.S. Bankruptcy Code to facilitate a restructuring of its balance sheet, which was saddled with expensive transportation and other contracts. During a bankruptcy proceeding, a contract that, for example, has a present value of \$200 million, could potentially be renegotiated to as low as \$20 million. On November 5, 2018, EXCO filed its restructuring plan, stating that holders of the 1.75 lien term loan will receive 82% of the new common stock of the company, subject to dilution by the management incentive plan.

Based on the valuation analysis by EXCO’s investment banking firm, PJT Partners Inc., EXCO’s total enterprise value range was estimated to be between a low of US\$850 million and a high of US\$1,150 million. Taking into account the US\$565.0 million in net debt, this implies a total equity value of between US\$285.0 million and US\$585.0 million that will be allocated to holders of the 1.75 lien term loan and other lower priority claim holders under the restructuring plan.

### Summary of Valuation Analysis:

<i>(US\$ in millions)</i>	<b>Low</b>	<b>Midpoint</b>	<b>High</b>
Total Enterprise Value	\$850	\$1,000	\$1,150
Less: Net Debt	-565	-565	-565
Total Equity Value	\$285	\$435	\$585
82% for 1.75L term loan	\$234	\$357	\$480
Percentage Recovery	31%	48%	65%

*Source: Exhibit F – Valuation Analysis of Document 1233 for Case 18-30155.*

Based on 82% of the mid-point valuation of US\$435.0 million, the 1.75 lien term loan holders are expected to achieve an estimated recovery of 48% under the restructuring plan (given the total principal outstanding for the 1.75 lien term loan was US\$742.2 million). However, the expected recovery of 48 cents on a dollar under the current restructuring plan could vary should the overall valuation of EXCO change depending on commodity prices (from the low of 31% to the high end estimate of 65% recovery).

On average, we purchased the EXCO term loans at 48 cents on a dollar. During 2016, we received about US\$6.03 million in cash interest, equivalent to about 12 cents on a dollar. In addition, we also received payment-in-kind interest that was added to the term loan principal. If our current assumptions regarding this investment prove to be correct, then over the long term we think the value of the EXCO 1.75 lien term loan should be higher than the year-end 2018 price of 44.36 cents on a dollar.

## Pharmaceutical Companies

We believe pharmaceutical stocks as a group are selling at attractive valuations. The companies generate their earnings in cash and were selling at less than 10 times earnings at the time of our purchase. Some companies were down more than 50% from their highs, which is what initially caught our attention. As discussed in past reports, we invested in more than two pharmaceutical companies (that is, we utilized a so-called “basket approach”) to reduce the potential risks from issues relating to Food and Drug Administration approval and patent expiration that may be faced by a single company.

## Sears Holdings

In October 2018, Sears Holdings (“Sears”) filed for voluntary Chapter 11 proceedings in Federal Bankruptcy Court in New York to cut its debts and reorganize its operations through further store closures. Instead of a liquidation procedure preferred by some creditors to close down all the stores and sell the remaining assets of the company, the CEO and majority shareholder, Edward Lampert, won the auction with a US\$5.3 billion bid and the promise to keep open the 400+ stores. We significantly reduced our holdings in 2018 and sold the remaining shares of Sears in early 2019.

From 2005 to 2016, the Fund spent approximately US\$46.8 million on the purchase of Sears shares (weighted average purchase price of US\$32.73 per share). The shares were sold for a total of US\$4.5 million (weighted average sale price of about US\$3.17 per share). Over the investment period, we received a total of about US\$18.3 million in distributions from dividends, various spin-offs and rights offerings (which we later sold in the market). Since 2010, we also initiated a stock-lending program where the Fund received net earnings on the shares lent of about US\$22.2 million.

### **Sears Holdings Investment Summary** *(In US \$Ms)*

Total Cost of Purchase	\$ 46.8
Proceeds From:	
(-) Total Sales	\$ 4.5
(-) Dividends	\$ 1.0
(-) Spin-Offs	\$ 11.4
(-) Rights Offerings	\$ 5.9
(-) Stock-Lending Net Earnings	\$ 22.2*
<b>NET LOSS</b>	<b>\$ 1.9</b>
<i>% of Total Purchase</i>	<i>4%</i>

*\*Approximated stock-lending net earnings between the years 2010 to 2015 based on percentage of Sears Holdings net earnings in 2013. The exact dollar amount received may vary.*

On a simple cash flow basis as shown above, the Fund suffered a net loss of approximately US\$1.9 million on Sears or 4% of the total purchase amount. Despite the various distributions including dividends, spin-offs, rights offerings and the stock-lending revenue, it was still a poor investment.



## Resolute Forest Products

As of December 31, 2018, the market price of Resolute Forest Products (“RFP”) was US\$7.93 per share, giving a market capitalization of about US\$720 million dollars. This was after US\$1.50 per share in special dividends that we received in December 2018.

With the appointment of Yves Laflamme as RFP’s new CEO in February 2018, there is more optimism on what the company can do with its four business segments. However, the stock continues to trade at less than six times earnings.

## Short-Term Performance Impacts Long-Term Returns

We have been out of sync with the market for about four years – the longest stretch so far. Generally, it has not bothered us because we expected to underperform the market 30% – 40% of the time, based on our history of managing money for over 35 years.

A lot of investors are not aware that short-term results can have a huge bearing on the five- and 10-year annualized compounded returns. For example, let’s take Fund A and Fund B. Fund A has consistently returned 7% per year for 10 years and therefore its compound rate of return over the 10-year period is 7%. Fund B, on the other hand, returns 8% for the first nine years but suffers a loss of 20% in the 10<sup>th</sup> year. Its compound rate of return for the 10-year period drops significantly to 4.8%. The impact is more pronounced for the five-year returns, a similar decline of 20% in the fifth year would have decreased the five-year compound return from 8% to merely 1.7% for Fund B versus 7% for Fund A.

Another example is to compare our 2014 and 2018 returns and see what the Fund’s 10- and 15-year returns were against the S&P 500.

	December 31, 2014		December 31, 2018	
Series A Returns	10 Years	15 Years	10 Years	15 Years
Chou Associates Fund (\$CAN)	8.3%	10.2%	8.4%	5.0%
S&P 500 (\$CAN)	7.3%	2.7%	14.4%	8.1%
Chou Associates Fund (\$U.S.)	8.6%	11.8%	7.1%	4.7%
S&P 500 (\$U.S.)	7.7%	4.2%	13.1%	7.8%

The important thing is that we continue to be confident in our value investing principles and the process we use to buy and sell stocks. We are trying to buy securities at 60 cents on a dollar. Another way to look at it is that when you buy stock at 10 times earnings versus the market at 25 times earnings, all other things being equal, you are getting a 10% annualized yield versus the market giving you a 4% annualized yield. This reasoning is logical and should outperform the market in the long run. However, there will be periods – like we are going through now – where it does not appear to be working.

## **Does Value Investing Work?**

With the lackluster returns by value funds in recent years compared to growth and index funds, there is some doubt as to whether value investing can still work in the current market. We hold the view that value investing certainly works, but only when executed properly.

Sometimes it is easier to blame the market environment than to admit our own faults. Although factors such as low interest rates, the popularity of passive investing, and elevated market valuations played a role in blunting returns for value investors, we also accentuated the problem. The key to value investing is appraisal. If that is not precise enough, everything falls apart. We tend to fish in troubled waters, and what caused the biggest problem in recent years was that our appraisal of troubled companies was off the mark.

When we thought a company was worth 100 cents, it was actually worth closer to 60 cents. We tended to give much higher weight to asset values and not enough weight to the value of the operating company. We used the asset value as a huge security blanket and became blind to the deterioration of the worth of the operating company. A case in point is Sears Holdings. We were correct that the real estate plus the value of brand names would afford some cushion against losses. However, we were inaccurate in our assumption that Eddie Lampert would maximize returns for the shareholders based on the real estate assets, and the value of the retail company Sears had at the time of purchase. Instead, he tried to re-invent the company, suffered huge losses along the way and almost completely eroded the value of the considerable real estate assets that Sears held. Although the value of downside protection is important, most of the returns from an investment comes from the increase in the intrinsic value of the company, or the closing of the gap between the discounted purchase price to the full intrinsic value. When neither of the two happens, then investors would like to see the assets and the brand names divested or sold, sooner rather than later, for the benefit of shareholders.

We can proudly say that in Sears we lost an insignificant amount of money on a simple dollar basis (as one Republican suggested, it should be classified as “Trump change”). However, we did lose a tremendous amount of money in opportunity cost over that 10-year period. Trump change or not, it was still an unforced error.

That was a mistake of commission. We also made a bundle of mistakes of omission.

Over the last 30 years, roughly half our portfolio was in troubled companies and the other half was in good companies. So, we are well acquainted with investing in both types of companies. But what happened over the last few years was that we spent most of the time undervaluing the good companies. When our assessment showed the investments were worth 100 cents, they were more accurately close to 150 cents, thus causing us to miss most of those opportunities. These “omissions”, though they are unseen mistakes are nevertheless as real as mistakes of commission.

In summary, although the markets have been less kind to value investing, we exacerbated the problem as practitioners.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value. The Fund's net cash position was approximately 1% of net assets as at December 31, 2018.

### **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2018.

CREDIT DEFAULT SWAPS: None existed at December 31, 2018.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

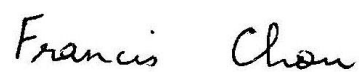
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

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 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 14, 2019, the NAVPU of a Series A unit of the Fund was \$108.20 and the cash position was approximately 0.2% of net assets. The Fund is up 4.8% from the beginning of the year. In U.S. dollars, it is up 7.3%.

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

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## Management's Responsibility for Financial Reporting

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To the unitholders of the Chou Funds:

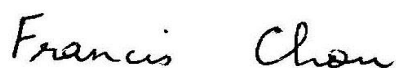
The accompanying financial statements have been prepared by the management of Chou Associates Management Inc. Management is responsible for the information and representations made in these financial statements.

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 judgements. 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.

Grant Thornton 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.



Francis Chou  
Chou Associates Management Inc.  
March 14, 2019

# Independent auditor's report

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To the Unitholders of  
**Chou Associates Fund**  
**Chou Asia Fund**  
**Chou Europe Fund**  
**Chou Bond Fund**  
**Chou RRSP Fund**  
  
**Collectively referred to as “the Funds”**

## Opinion

We have audited the financial statements of each of the Funds, which comprise the statements of financial position as at December 31, 2018, and December 31, 2017 and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of each of the Funds, present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows of each of the Funds for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. Other information contained in the Funds' Management Reports of Fund Performance to be filed with the relevant Canadian Securities Commissions.

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

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

We obtained the Funds' Management Reports of Fund Performance to be filed with the relevant Canadian Securities Commissions as at the date of the auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

*Grant Thornton LLP*

Markham, Canada  
March 27, 2019

Chartered Professional Accountants  
Licensed Public Accountants

# CHOU ASSOCIATES FUND

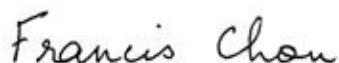
## Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 283,172,255	\$ 255,929,599
Held-for-trading investments (note 8)	–	48,549,466
Cash and cash equivalents	4,523,311	73,223,175
Receivable for redeemable units subscribed	32,205	7,695
Due from broker	145,648	39,038
Interest receivable	–	139,588
Dividends receivable	131,025	120,640
Total assets	288,004,444	378,009,201
<b>Liabilities</b>		
Current liabilities:		
Financial liabilities at fair value through profit or loss	600,688	–
Accrued expenses	1,391,306	1,020,214
Payable for units redeemed	247,759	142,118
Distributions payable	5,253	–
Due to broker	1,388	38,812
Total liabilities	2,246,394	1,201,144
Net assets attributable to unitholders of redeemable units	\$ 285,758,050	\$ 376,808,057
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 250,374,883	\$ 336,324,537
Series F	35,383,167	40,483,520
	\$ 285,758,050	\$ 376,808,057
Number of redeemable units outstanding (note 4):		
Series A	2,424,781	2,998,503
Series F	344,195	363,060
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 103.26	\$ 112.16
Series F	102.80	111.51
U.S. dollars:		
Series A	75.64	89.23
Series F	75.30	88.71

See accompanying notes to financial statements.

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







# CHOU ASSOCIATES FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2018 and 2017

	2018	2017
<b>Income:</b>		
Interest for distribution purposes and other	\$ 121,799	\$ 9,736,195
Dividends	8,929,847	2,056,479
Securities lending income (note 7)	969,740	4,468,988
Derivative loss	–	(68)
Foreign currency gain (loss) on cash and other net assets	884,179	(297,709)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized loss on financial assets designated at fair value through profit or loss	(1,057,657)	(43,034,436)
Net realized gain on held-for-trading investments	2,589,287	52,356,952
Change in unrealized appreciation of financial assets designated at fair value through profit and loss	10,157,089	31,281,604
Change in depreciation on held-for-trading investments	(37,116,302)	(35,192,124)
	(14,522,018)	21,375,881
<b>Expenses:</b>		
Management fees (note 5)	5,597,465	6,530,428
Custodian fees	547,500	547,500
Audit	279,035	151,249
Filing fees	107,171	74,699
Independent review committee fees	50,635	–
FundSERV fees	28,480	36,234
Legal fees	18,250	18,250
Transaction costs (note 6)	217,130	625,514
Foreign withholding taxes	1,233,733	359,527
Other	31,457	54,716
	8,110,856	8,398,117
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (22,632,874)	\$ 12,977,764
(Decrease) increase in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (19,817,041)	\$ 11,600,045
Series F	(2,815,833)	1,377,719
	\$ (22,632,874)	\$ 12,977,764
Weighted average number of redeemable units outstanding for the year per series:		
Series A	2,723,471	3,325,536
Series F	347,748	385,841
(Decrease) increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (7.28)	\$ 3.49
Series F	(8.10)	3.57

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, 2018 and 2017

	2018	2017
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 336,324,537	\$ 403,677,931
(Decrease) increase in net assets attributable to unitholders of redeemable units	(19,817,041)	11,600,045
Proceeds from issue of redeemable units	10,143,180	3,822,668
Payments on redemption of redeemable units	(76,275,793)	(82,563,368)
Distributions of income to unitholders:		
Investment income	–	(7,703,917)
Reinvested distributions	–	7,491,178
Net assets attributable to unitholders of redeemable units, end of year	250,374,883	336,324,537
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	40,483,520	45,074,334
(Decrease) increase in net assets attributable to unitholders of redeemable units	(2,815,833)	1,377,719
Proceeds from issue of redeemable units	3,833,678	8,818,729
Payments on redemption of redeemable units	(6,113,098)	(14,739,832)
Distributions of income to unitholders:		
Investment income	–	(1,182,039)
Capital gains	(147,480)	–
Reinvested distributions	142,380	1,134,609
Net assets attributable to unitholders of redeemable units, end of year	35,383,167	40,483,520
Total net assets attributable to unitholders of redeemable units, end of year	\$ 285,758,050	\$ 376,808,057

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (22,632,874)	\$ 12,977,764
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(884,179)	297,709
Net realized gain on disposal of investments and derivatives	(1,531,630)	(9,322,516)
Change in unrealized depreciation on investments and derivatives	26,959,213	3,910,520
Change in non-cash operating working capital:		
Decrease in interest receivable	139,588	89,483
Increase in dividends receivable	(10,385)	(120,640)
Increase in accrued expenses	371,092	168,867
Purchase of investments	(104,940,776)	(97,893,568)
Proceeds from sales of investments	101,276,657	218,881,166
Net cash (used in) generated from operating activities	(1,253,294)	128,988,785
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	153	(260,169)
Proceeds from redeemable units issued	13,952,348	12,686,414
Amount paid on redemption of redeemable units	(82,283,250)	(97,625,968)
Net cash used in financing activities	(68,330,749)	(85,199,723)
Foreign currency gain (loss) on cash and other net assets	884,179	(297,709)
(Decrease) increase in cash and cash equivalents	(68,699,864)	43,491,353
Cash and cash equivalents, beginning of year	73,223,175	29,731,822
Cash and cash equivalents, end of year	\$ 4,523,311	\$ 73,233,175
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 261,387	\$ 9,825,678
Dividends received, net of withholding tax	7,685,729	1,576,312
Security lending income received	969,740	4,468,988

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Schedule of Investments

December 31, 2018

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Allegiant Travel Company	4,317	\$ 794,549	\$ 590,654
Ascent Capital Group Inc., Series 'A'	149,104	6,890,791	79,387
Bausch Health Companies Inc.	1,350,000	29,176,383	34,040,580
Berkshire Hathaway Inc., Class 'A'	150	15,819,918	62,662,680
Citigroup Inc.	130,000	3,284,479	9,239,401
DaVita Inc.	140,743	9,696,416	9,887,645
Endo International PLC	800,000	6,522,335	7,972,768
JPMorgan Chase & Company	109,275	7,637,285	14,563,169
MBIA Inc.	952,531	6,591,788	11,599,526
Overstock.com Inc., Class 'B'	43,030	890,010	895,854
Resolute Forest Products Inc.	3,347,772	50,233,049	36,243,100
Sanofi, ADR	278,000	9,825,178	16,475,206
Sears Holdings Corporation	99,135	2,869,947	36,481
Sears Hometown and Outlet Stores Inc.	1,301,960	24,397,164	3,785,938
Spirit Airlines Inc.	50,000	2,334,425	3,953,619
The Goldman Sachs Group Inc.	50,000	6,256,094	11,402,833
Wells Fargo & Company	434,542	23,187,196	27,336,349
		206,407,007	250,765,190
<b>Bonds</b>			
Exco Resources Inc., term loans, October 26, 2020	53,512,087	37,508,648	32,407,065
Total long		243,915,655	283,172,255
Total investments		243,915,655	283,172,255
Transaction costs		(237,419)	–
Total Investments in Non-Derivative Financial Assets		243,678,236	283,172,255
Derivative Liabilities		–	(600,688)
Portfolio total		\$ 243,678,236	\$ 282,571,567

## Schedule of Derivative Instruments

Security Name	Strike Price	Expiry Date	Currency	No. of Contracts	Proceeds	Fair Value
<b>Options</b>						
<i>Written Call Options</i>						
Endo International PLC	\$ 15.00	01-18-20	USD	(6,200)	\$ (1,393,296)	\$ (423,212)
Resolute Forest Products Inc.	16.00	04-19-19	USD	(2,000)	(165,550)	(81,912)
Resolute Forest Products Inc.	13.50	04-19-19	USD	(2,000)	(336,441)	(13,652)
Sears Hometown and Outlet Stores Inc.	2.50	11-19-19	USD	(4,000)	(78,425)	(81,912)
<b>Total Written Call Options</b>					<b>\$ (1,973,712)</b>	<b>\$ (600,688)</b>
<b>Derivative Assets and Liabilities – Options</b>					<b>\$ (1,973,712)</b>	<b>\$ (600,688)</b>

\*Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management

Years ended December 31, 2018 and 2017

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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. 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, 2018, the Fund did not invest any of its net assets in non-investment grade debt instruments (2017 – 11.31%). 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. As at December 31, 2018, the Fund invested approximately 11.34% (2017 – 0.24%) 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 risk by remaining term to maturity:

Debt instruments by maturity date:

	2018	2017
Less than 1 year	\$ –	\$ –
1 - 3 years	32,407,065	41,199,624
3 - 5 years	–	2,330,248
Greater than 5 years	–	–

As at December 31, 2018, 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 \$147,608 (2017 - \$303,212).

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

# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management (continued)

Years ended December 31, 2018 and 2017

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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 87.75% (2017 - 56.41%) of the Fund's net assets held at December 31, 2018 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2018, the net assets of the Fund would have increased or decreased by approximately \$12,538,260 or 4.39% (2017 - \$10,620,000 or 2.82%) 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, 2018 and 2017 expressed in CAD are as follows:

<b>2018</b>	<b>Foreign currency forward contract</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ –	\$ 283,722,795	99.3%

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<b>2017</b>	<b>Foreign currency forward contract</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ –	\$ 378,004,399	100.3%

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including dividend receivable, interest receivable, receivable for units subscribed and due from broker) and financial liabilities (including 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, 2018, 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 \$2,837,228 (2017 - \$3,780,044).

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

**CHOU ASIA FUND**  
(unaudited)

March 14, 2019

Dear Unitholders of Chou Asia Fund,

As there were no distributions, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Asia Fund at December 31, 2018 was \$17.52 compared to \$20.08 at December 31, 2017, a decrease of 12.7%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars decreased 5.6%. In U.S. dollars, a Series A unit of Chou Asia Fund was down 19.6% while the MSCI AC Asia Pacific Total Return Index decreased 13.2%.

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

<b>December 31, 2018 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Asia Fund (\$CAN)	-12.7%	2.6%	4.1%	6.7%
MSCI AC Asia Pacific TR (\$CAN)	-5.6%	6.1%	9.0%	9.4%
Chou Asia Fund (\$US) <sup>1</sup>	-19.6%	3.0%	-0.9%	5.5%
MSCI AC Asia Pacific TR (\$US)	-13.2%	6.6%	3.7%	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 2018 Results**

The main negative contributors to the Fund’s performance in 2018 were the equity holdings of China Yuchai International, BYD Electronic, BYD Company Limited, POSCO, and Pyne Gould Corporation.

The renminbi had slightly appreciated against the Canadian currency during the year, which positively impacted the Fund.

The Fund added equity holdings of Samsung Electronics Company, AirAsia Group, and preferred shares of Seaspan Corp. in 2018.

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<sup>1</sup> The alternative method of purchasing Chou Asia Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US 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 (\$US) except for the currency applied.

## **Portfolio Commentary**

For the year 2018, Asian equity markets ended in negative territory. Two main factors led to major Asian markets seeing double-digit declines over the year, including annual losses of more than 24% for the indexes in Shanghai and Shenzhen.

Trade tensions between the U.S. and China escalated towards the end of the year and dominated global headlines. Both countries implemented new tariffs during the year stoking fears of a global trade war.

The slowdown in China's economy following decades of growth also weighed heavily on Asian markets. According to government data, China's manufacturing sector shrunk for the first time in two years in December. Major American companies also reported slowing sales growth in China including Apple and 3M.

## **India**

As mentioned in previous letters, we have started to look closely at the market in India. With a current population of 1.3 billion, India is the world's second most populous country. It has one of Asia's youngest populations with the median age of 27.3 compared to China at 37.6 and Japan at 47.1.

In recent years, the Indian government has enacted reforms to further support the growth of India's economy. India's performance on the World Bank's *Ease of Doing Business* index, which ranks countries on parameters such as regulations for businesses and protections for private property, has increased from a rank of 132 out of 190 in 2016 to 77 out of 190 in 2018.

For the year 2018, the S&P BSE SENSEX index was up 7.23% while the S&P Global 1200 declined 9%, and most Asian indexes dropped double digits. This includes the Shanghai Composite Index (down 24.6%) and the Hong Kong Hang Seng Index (down 13.61%).

As with any foreign ventures, the investments in India will face the risk of negative currency movements. As a result, we are awaiting further developments and remain cautious of the market. In addition, we are also looking at the South Korean and Chinese markets for any potential bargains.

## **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise more than 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.



Also, the Fund's net cash position was approximately 37% of net assets as at December 31, 2018. This large cash position may depress returns for a while as we hunt for undervalued securities. If there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

### **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2018.

CREDIT DEFAULT SWAPS: None existed at December 31, 2018.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

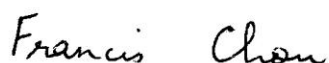
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

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 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 14, 2019, the NAVPU of a Series A unit of the Fund was \$17.51 and the cash position was approximately 34.0% of net assets. The Fund is down 0.1% from the beginning of the year. In U.S. dollars, it is up 2.3%.

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, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 14,244,912	\$ 16,483,615
Cash and cash equivalents	8,910,126	13,088,779
Receivable for redeemable units subscribed	12,000	500
Interest receivable	5,392	–
Dividends receivable	8,093	4,481
Total assets	23,180,523	29,577,375
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	139,092	105,145
Payable for units redeemed	176	33,321
Distributions payable	2,372	–
Due to broker	500,073	–
Total liabilities	641,713	138,466
Net assets attributable to unitholders of redeemable units	\$ 22,538,810	\$ 29,438,909
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 20,300,189	\$ 26,507,737
Series F	2,238,621	2,931,172
	\$ 22,538,810	\$ 29,438,909
Number of redeemable units outstanding (note 4):		
Series A	1,158,473	1,320,405
Series F	125,082	142,866
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 17.52	\$ 20.08
Series F	17.90	20.52
U.S. dollars:		
Series A	12.83	15.97
Series F	13.11	16.32

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 (Loss)

Years ended December 31, 2018 and 2017

	2018	2017
<b>Income:</b>		
Interest for distribution purposes and other	\$ 17,686	\$ –
Dividends	448,772	194,710
Securities lending income (note 7)	217,438	105,669
Derivative income	–	97
Foreign currency gain (loss) on cash and other net assets	405,766	(1,125,526)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized (loss) gain on financial assets designated at fair value through profit or loss	(5,902)	2,729,917
Change in unrealized (depreciation) appreciation on financial assets designated at fair value through profit or loss	(4,018,968)	4,992,944
	(2,935,208)	6,897,811
<b>Expenses:</b>		
Management fees (note 5)	433,731	545,719
Custodian fees	43,800	43,800
Audit	23,119	14,336
Filing fees	9,560	7,281
Independent review committee fees	4,154	–
FundSERV fees	4,627	5,529
Legal fees	1,348	1,435
Transaction costs (note 6)	3,959	8,991
Foreign withholding taxes	14,198	13,782
Other	8,114	7,923
	546,610	648,796
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (3,481,818)	\$ 6,249,015
(Decrease) increase in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (3,178,752)	\$ 5,731,077
Series F	(303,066)	517,938
	\$ (3,481,818)	\$ 6,249,015
Weighted average number of redeemable units outstanding for the year per series:		
Series A	1,247,908	1,664,614
Series F	124,594	141,917
(Decrease) increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (2.55)	\$ 3.45
Series F	(2.43)	3.65

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, 2018 and 2017

	2018	2017
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 26,507,737	\$ 33,071,841
(Decrease) increase in net assets attributable to unitholders of redeemable units	(3,178,752)	5,731,077
Proceeds from issue of redeemable units	273,410	389,442
Payments on redemption of redeemable units	(3,302,206)	(12,684,623)
Net assets attributable to unitholders of redeemable units, end of year	20,300,189	26,507,737
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	2,931,172	2,548,722
(Decrease) increase in net assets attributable to unitholders of redeemable units	(303,066)	517,938
Proceeds from issue of redeemable units	360,579	790,223
Payments on redemption of redeemable units	(747,692)	(925,711)
Distributions of income to unitholders:		
Investment income	(13,302)	—
Reinvested distributions	10,930	—
Net assets attributable to unitholders of redeemable units, end of year	2,238,621	2,931,172
Total net assets attributable to unitholders of redeemable units, end of year	\$ 22,538,810	\$ 29,438,909

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (3,481,818)	\$ 6,249,015
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(405,766)	1,125,526
Net realized loss (gain) on disposal of investments and derivatives	5,902	(2,729,917)
Change in unrealized depreciation (appreciation) on investments and derivatives	4,018,968	(4,992,944)
Change in non-cash operating working capital:		
Increase in interest receivable	(5,392)	–
Increase in dividends receivable	(3,612)	(3,511)
Increase in accrued expenses	33,947	23,101
Purchase of investments	(1,286,094)	(141,704)
Proceeds from sales of investments	–	2,972,500
Net cash (used in) generated from operating activities	(1,123,865)	2,502,066
<b>Cash flows from financing activities:</b>		
Proceeds from redeemable units issued	622,489	1,180,165
Amount paid on redemption of redeemable units	(4,083,043)	(13,577,013)
Net cash used in financing activities	(3,460,554)	(12,396,848)
Foreign currency gain (loss) on cash and other net assets	405,766	(1,125,526)
Decrease in cash and cash equivalents	(4,178,653)	(11,020,308)
Cash and cash equivalents, beginning of year	13,088,779	24,109,087
Cash and cash equivalents, end of year	\$ 8,910,126	\$ 13,088,779
<b>Supplemental information:</b>		
Interest received	\$ 12,294	\$ –
Dividends received, net of withholding tax	430,962	177,417
Security lending income received	217,438	105,669

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Schedule of Investments

December 31, 2018

	Number of securities	Cost	Fair value
<b>Equities*</b>			
AirAsia Group Berhad	650,000	\$ 670,997	\$ 637,754
AJIS Company Limited	30,400	213,157	1,063,632
BYD Company Limited, Class 'H'	573,000	989,812	4,989,958
BYD Electronic (International) Company Limited	798,000	193,535	1,369,004
China Yuchai International Limited	73,364	1,242,575	1,245,947
Hanfeng Evergreen Inc.	95,850	228,548	–
POSCO, ADR	21,000	1,259,883	1,575,086
Pyne Gould Corporation Limited	10,277,219	2,297,846	2,260,137
Samsung Electronics Company Limited, GDR	420	500,073	497,124
Seaspan Corporation, Preferred	19,711	619,056	606,270
Total long		8,215,482	14,244,912
Total investments		8,215,482	14,244,912
Transaction costs		(18,443)	–
Portfolio total		\$ 8,197,039	\$ 14,244,912

\*Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Discussion of Financial Risk Management

Years ended December 31, 2018 and 2017

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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.

### 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 63.20% (2017 – 55.99%) of the Fund's net assets held at December 31, 2018 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2018, the net assets of the Fund would have increased or decreased by approximately \$712,246 or 3.16% (2017 - \$824,000 or 2.80%) 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, 2018 and 2017 expressed in CAD are as follows:

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2018	Financial instruments	Percentage of net asset value
Hong Kong dollar (HKD)	\$ 6,358,962	28.2%
United States dollar (USD)	\$ 3,572,740	15.8%
New Zealand dollar (NZD)	\$ 2,386,470	10.6%
Japanese yen (¥)	\$ 1,100,767	4.9%
Malaysian Ringgit (RM)	\$ 723,647	3.2%
Singapore dollar (SGD)	\$ 174,685	0.8%

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# CHOU ASIA FUND

## Discussion of Financial Risk Management (continued)

Years ended December 31, 2018 and 2017

### Financial risk management (continued):

2017	Financial instruments	Percentage of net asset value
Hong Kong dollar (HKD)	\$ 18,212,114	61.9%
United States dollar (USD)	\$ 7,249,044	24.6%
New Zealand dollar (NZD)	\$ 2,869,422	9.7%
Japanese yen (¥)	\$ 1,015,501	3.4%
Singapore dollar (SGD)	\$ 163,907	0.6%

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including dividends receivable, interest receivable and receivable for units subscribed) and financial liabilities (including 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, 2018, 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 \$143,173 (2017 - \$295,100).

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



**CHOU EUROPE FUND**  
(unaudited)

March 14, 2019

Dear Unitholders of Chou Europe Fund,

As there were no distributions, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Europe Fund at December 31, 2018 was \$9.06 compared to \$10.05 at December 31, 2017, a decrease of 9.9%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars decreased 6.8%. In U.S. dollars, a Series A unit of Chou Europe Fund was down 17.1% while the MSCI AC Europe Total Return Index decreased 14.3%.

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

<b>December 31, 2018 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Europe Fund (\$CAN)	-9.9%	-8.8%	-4.8%	5.9%
MSCI AC Europe TR (\$CAN)	-6.8%	2.4%	4.9%	7.9%
Chou Europe Fund (\$US) <sup>1</sup>	-17.1%	-8.4%	-9.5%	4.6%
MSCI AC Europe TR (\$US)	-14.3%	2.9%	-0.2%	6.7%

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 2018 Results**

The main negative contributors to the Fund’s performance in 2018 were the equity holdings of Intralot SA, Eurobank Ergasias SA, Ryanair Holdings PLC, and Bank of Ireland.

The only positive contributor to the Fund in 2018 was Sanofi. The Euro appreciated slightly against the Canadian currency during the year, which also contributed positively to the performance of the Fund.

The Fund added common shares of Fiat Chrysler Automobiles to its portfolio in 2018.

The Fund reduced holdings in Eurobank Ergasias SA and exited the equity positions of Next PLC and OTCPharm in 2018.

The Fund wrote covered call options on the common shares of Endo International PLC in 2018.

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<sup>1</sup> The alternative method of purchasing Chou Europe Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US 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 (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Pharmaceutical Companies**

We believe pharmaceutical stocks as a group are selling at attractive valuations. The companies generate their earnings in cash and were selling at less than 10 times earnings at the time of our purchase. Some companies were down more than 50% from their highs, which is what initially caught our attention. As discussed in past reports, we invested in more than two pharmaceutical companies (that is, we utilized a so-called “basket approach”) to reduce the potential risks from issues relating to Food and Drug Administration approval and patent expiration that may be faced by a single company.

### **Eurobank Ergasias SA**

Eurobank Ergasias SA (“Eurobank”) is the third largest bank in Greece by total assets with more than 650 branches globally. Greek banks face continuing challenges with the non-performing loans left over from the multi-year debt crisis. Eurobank’s management team has embarked on a plan to face the issue head on. By securitizing some of the loans and entering a deal to buy real estate firm, Grivalia Properties, Eurobank will increase its capital and reduce its non-performing loan portfolio significantly. Given the plan, we think Eurobank’s stock price of €0.54 as of December 31, 2018 is undervalued when compared to its book value of approximately €2.30 per share.

European equities ended the year 2018 in negative territory. Political challenges as well as growth concerns weighed heavily on European stocks. Uncertainty over the Brexit negotiations in the UK stoked investor fears across the region. Other geopolitical factors included France’s protests over President Emmanuel Macron’s reforms and the Italian government’s dispute with the European commission over its budget.

Against this political backdrop and along with some softening economic growth in the region, many European benchmark indexes were down double digits overall for the year.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund’s portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund’s net cash position was approximately 28% of net assets as at December 31, 2018. This large cash position may depress returns for a while as we hunt for undervalued securities. If there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities.

But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2018.

CREDIT DEFAULT SWAPS: None existed at December 31, 2018.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.


REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 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 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 14, 2019, the NAVPU of a Series A unit of the Fund was \$9.46 and the cash position was approximately 24.7% of net assets. The Fund is up 4.5% from the beginning of the year. In U.S. dollars, it is up 7.0%.

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,



Francis Chou  
Fund Manager

# CHOU EUROPE FUND

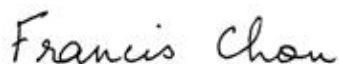
## Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 5,403,768	\$ 6,775,082
Cash and cash equivalents	2,686,337	777,391
Receivable for redeemable units subscribed	29,320	10,000
Interest receivable	1,782	—
Dividends receivable	6,719	22,378
Total assets	8,127,926	7,584,851
<b>Liabilities</b>		
Current liabilities:		
Financial liabilities at fair value through profit or loss	54,608	—
Accrued expenses	25,990	22,442
Payable for units redeemed	26,206	4,096
Due to broker	593,993	—
Total liabilities	700,797	26,538
Net assets attributable to unitholders of redeemable units	\$ 7,427,129	\$ 7,558,313
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 4,325,387	\$ 6,694,564
Series F	3,101,742	863,749
	\$ 7,427,129	\$ 7,558,313
Number of redeemable units outstanding (note 4):		
Series A	477,657	666,094
Series F	330,952	83,511
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 9.06	\$ 10.05
Series F	9.37	10.34
U.S. dollars:		
Series A	6.64	8.00
Series F	6.86	8.23

See accompanying notes to financial statements.

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

  
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# CHOU EUROPE FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2018 and 2017

	2018	2017
<b>Income:</b>		
Interest for distribution purposes and other	\$ 6,069	\$ –
Dividends	74,636	76,883
Securities lending income (note 7)	769	344
Derivative loss	–	(1,082)
Foreign currency loss on cash and other net assets	(110)	(57,991)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized (loss) gain on financial assets designated at fair value through profit or loss	(1,294,147)	4,417,480
Change in unrealized appreciation (depreciation) on fair value of financial assets designated at fair value through profit or loss	352,833	(3,715,234)
Change in unrealized appreciation on held-for-trading investments	125,172	–
	(734,778)	720,400
<b>Expenses:</b>		
Management fees (note 5)	120,310	206,011
Custodian fees	14,600	14,600
Audit	10,001	5,538
Filing fees	3,464	2,641
Independent review committee fees	1,371	–
FundSERV fees	3,223	3,581
Legal fees	414	546
Transaction costs (note 6)	8,035	17,677
Foreign withholding taxes	1,915	10,059
Other	2,473	2,832
	165,806	263,485
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (900,584)	\$ 456,915
(Decrease) increase in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (456,596)	\$ 433,156
Series F	(443,988)	23,759
	\$ (900,584)	\$ 456,915
Weighted average number of redeemable units outstanding for the year per series:		
Series A	546,398	1,142,852
Series F	181,747	88,858
(Decrease) increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.84)	\$ 0.37
Series F	(2.44)	0.26

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, 2018 and 2017

	2018	2017
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 6,694,564	\$ 12,164,662
(Decrease) increase in net assets attributable to unitholders of redeemable units	(456,596)	433,156
Proceeds from issue of redeemable units	1,011,138	401,580
Payments on redemption of redeemable units	(2,923,719)	(6,304,834)
Net assets attributable to unitholders of redeemable units, end of year	4,325,387	6,694,564
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	863,749	1,523,995
(Decrease) increase in net assets attributable to unitholders of redeemable units	(443,988)	23,759
Proceeds from issue of redeemable units	3,023,401	243,288
Payments on redemption of redeemable units	(341,420)	(927,293)
Net assets attributable to unitholders of redeemable units, end of year	3,101,742	863,749
Total net assets attributable to unitholders of redeemable units, end of year	\$ 7,427,129	\$ 7,558,313

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (900,584)	\$ 456,915
Adjustments for:		
Foreign currency loss on cash and other net assets	110	57,991
Net realized loss (gain) on disposal of investments and derivatives	1,294,147	(4,417,480)
Change in unrealized (appreciation) depreciation on investments and derivatives	(478,005)	3,715,234
Change in non-cash operating working capital:		
Increase in interest receivable	(1782)	–
Decrease (increase) in dividends receivable	15,659	(933)
Increase in accrued expenses	3,548	1,250
Purchase of investments	905	(2,325,969)
Proceeds from sales of investments	1,202,868	7,483,292
Net cash generated from operating activities	1,136,866	4,970,300
<b>Cash flows from financing activities:</b>		
Proceeds from redeemable units issued	4,015,219	634,868
Amount paid on redemption of redeemable units	(3,243,029)	(7,228,031)
Net cash generated from (used in) financing activities	772,190	(6,593,163)
Foreign currency loss on cash and other net assets	(110)	(57,991)
Increase (decrease) in cash and cash equivalents	1,908,946	(1,680,854)
Cash and cash equivalents, beginning of year	777,391	2,458,245
Cash and cash equivalents, end of year	\$ 2,686,337	\$ 777,391
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 4,287	\$ –
Dividends received, net of withholding tax	88,380	65,891
Security lending income received	769	344

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Schedule of Investments

December 31, 2018

	Number of securities		Cost		Fair value
<b>Equities*</b>					
Abbey Public Limited Company	29,371	\$	211,019	\$	643,181
Bank of Ireland Group PLC	113,333		1,112,510		861,548
Endo International PLC	80,000		1,254,127		797,277
Eurobank Ergasias SA	250,000		960,458		211,164
Fiat Chrysler Automobiles N.V.	30,000		594,276		592,224
Intralot A.E.	517,575		1,197,068		351,762
Ryanair Holdings PLC, ADR	4,575		132,084		445,575
Sanofi, ADR	20,000		884,092		1,185,266
Teva Pharmaceutical Industries Limited, ADR	15,000		666,215		315,771
			7,011,849		5,403,768
<b>Total long</b>			7,011,849		5,403,768
<b>Total investments</b>			7,011,849		5,403,768
<b>Transaction costs</b>			(11,913)		–
<b>Total Investments in Non-Derivative Financial Assets</b>			6,999,936		5,403,768
<b>Derivative Liabilities</b>			–		(54,608)
<b>Portfolio total</b>		\$	6,999,936	\$	5,349,160

## Schedule of Derivative Instruments

Security Name	Strike Price	Expiry Date	Currency	No. of Contracts	Proceeds	Fair Value
<b>Options</b>						
<i>Written Call Options</i>						
Endo International PLC	\$ 15.00	01-18-20	USD	(800)	\$ (179,780)	\$ (54,608)
<b>Total Written Call Options</b>					<b>\$ (179,780)</b>	<b>\$ (54,608)</b>
<b>Derivative Assets and Liabilities – Options</b>					<b>\$ (179,780)</b>	<b>\$ (54,608)</b>

\*Common shares unless indicated otherwise

See accompanying notes to financial statements.



# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Years ended December 31, 2018 and 2017

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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 72.76% (2017 - 89.64%) of the Fund's net assets held at December 31, 2018 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2018, the net assets of the Fund would have increased or decreased by approximately \$270,188 or 3.64% (2017 - \$338,750 or 4.48%) 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, 2018 and 2017 expressed in CAD are as follows:

2018	Foreign currency forward contract	Financial instruments	Percentage of net asset value
United States dollar (USD)	\$ —	\$ 2,896,142	39.0%
Euro currency (€)	\$ —	\$ 2,092,422	28.2%
Sterling pound (£)	\$ —	\$ 312	0.0%

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# CHOU EUROPE FUND

## Discussion of Financial Risk Management (continued)

Years ended December 31, 2018 and 2017

### Financial risk management (continued):

<b>2017</b>	<b>Foreign currency forward contract</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
Euro currency (€)	\$ –	\$ 4,131,358	54.7%
United States dollar (USD)	\$ –	\$ 3,031,322	40.1%
Sterling pound (£)	\$ –	\$ 205,561	2.7%
Russian Ruble (₽)	\$ –	\$ 3,079	0.0%

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including dividends receivable, interest receivable and receivable for units subscribed) and financial liabilities (including 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, 2018, 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 \$49,889 (2017 - \$73,713).

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

## CHOU BOND FUND

(unaudited)

March 14, 2019

Dear Unitholders of Chou Bond Fund,

After the distribution of \$0.42, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Bond Fund at December 31, 2018 was \$9.01 compared to \$8.21 at December 31, 2017, an increase of 14.9%; during the same period, Barclays U.S. Corporate High Yield Index (\$CAN) returned 6.7%. In U.S. dollars, a Series A unit of Chou Bond Fund was up 5.8% while Barclays U.S. Corporate High Yield Index decreased 2.1%.

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

<b>December 31, 2018 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Bond Fund (\$CAN)	14.9%	7.2%	5.5%	10.9%
Barclays’ U.S. High Yield (\$CAN)	6.7%	6.6%	9.2%	12.3%
Chou Bond Fund (\$US) <sup>1</sup>	5.8%	7.7%	0.3%	9.6%
Barclays’ U.S High Yield (\$US)	-2.1%	7.2%	3.8%	11.1%

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 2018 Results**

Major positive contributors of the Fund’s performance in 2018 were the term loan and the equity of Catalyst Paper Corporation, and Atlanticus Holdings 5.875%, due November 2035.

In October 2018, Catalyst Paper was acquired by Paper Excellence Canada Holdings Corporation for a price of \$1.2260 per share for common shareholders and 100 cents on a dollar for debtholders.

The securities that negatively impacted the Fund during the year include the debt holdings of Avangardco Investments Public Limited 10.00%, EXCO Resources 1.75 lien term loan, Fortress Paper 7.00%, and the common shares of WOW Unlimited.

There was no new addition to the Fund in 2018.

The Fund reduced holdings in Atlanticus Holdings 5.875%, due November 2035 during the year. The Fund also exited positions in the bonds of Ascent Capital Group, Valeant Pharmaceuticals, Dex Media term loan, Sears Roebuck Acceptance preferred shares, and the equity holdings of Resolute Forest Products and SandRidge Energy.

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<sup>1</sup> The alternative method of purchasing Chou Bond Fund in \$US has been offered since September 2005. The investments in the Chou Bond Fund (\$CAN) are the same as the investments in Chou Bond Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Rise from the Dead – The Story of Catalyst Paper**

Since 2007, we have invested in Catalyst Paper bonds, one of the leading producers of mechanical printing papers in Western North America. The company had a troubled financial history during our long holding period and was forced twice to restructure its capital structure. Nevertheless, we continued to believe that the bonds were cheap and held onto them through thick and thin. When the company finally emerged from the last restructuring in 2017, we received new common shares and secured term loans in exchange for the old bonds.

As of September 30, 2018, the common stock was priced at 10 cents per share and the term loan was priced at 70 cents on a dollar. Shortly after that in October 2018, Catalyst Paper announced it had entered into an agreement with Paper Excellence Canada Holdings Corporation (“Paper Excellence”) whereby Paper Excellence will purchase all the outstanding common shares for \$1.2260 per share in cash and all the outstanding term loans at par or 100 cents on a dollar.

The price for the common shares was more than 12 times the fair market value in our portfolio. As a result, Chou Bond Fund experienced a large jump in valuation. At year-end 2018, the Fund was ranked in the first percentile on Morningstar against its peers over the one-year, three-year and 10-year investment periods.

An important lesson to learn here is although the common stock and term loan were not doing anything for a long time, the intrinsic value of those two securities was far in excess of the price that we were carrying on our books. We needed to wait it out and eventually our patience was amply rewarded.

### **Avangardco Investments and Ukrlandfarming PLC**

Avangardco Investments’ 10% unsecured bond (due in October 2018) fell from 22.45 cents on a dollar on December 31, 2017 to 18.12 cents on December 31, 2018. Ukrlandfarming’s 10.875% unsecured bond (due in March 2018) increased slightly from 15.25 cents on a dollar on December 31, 2017 to 15.97 cents on December 31, 2018.

As mentioned in previous reports, we believe that the bonds of those companies are down from their purchase price in large part because the Ukrainian regions are highly volatile and is subject to serious geopolitical risk. As a result, we expect the prices of the bonds we purchased to be volatile and they could subject the Fund to a permanent loss of capital.

Both bonds defaulted on maturity in 2018 and were unable to repay their principals. We are waiting for an updated restructuring plan from Avangardco and Ukrlandfarming PLC for bondholders.

### **EXCO Resources**

As of December 31, 2018, the Fund owned about US\$1.8 million worth of EXCO Resources (“EXCO”)’s 1.75 lien term loan (converted from the second-lien term loan held previously in Feb. 2017), with approximately US\$4.2 million in par value. This is the largest position in the portfolio, comprising approximately 15% of the assets of the Fund (at market value).

On January 15, 2018, EXCO filed voluntary petitions for a court-supervised reorganization under Chapter 11 of the U.S. Bankruptcy Code to facilitate a restructuring of its balance sheet, which was saddled with expensive transportation and other contracts. During a bankruptcy proceeding, a contract that, for example, has a present value of \$200 million, could potentially be renegotiated to as low as \$20 million. On November 5, 2018, EXCO filed its restructuring plan, stating that holders of the 1.75 lien term loan will receive 82% of the new common stock of the company, subject to dilution by the management incentive plan.

Based on the valuation analysis by EXCO’s investment banking firm, PJT Partners Inc., EXCO’s total enterprise value range was estimated to be between a low of US\$850 million and a high of US\$1,150 million. Taking into account the US\$565.0 million in net debt, this implies a total equity value of between US\$285.0 million and US\$585.0 million that will be allocated to holders of the 1.75 lien term loan and other lower priority claim holders under the restructuring plan.

**Summary of Valuation Analysis:**

<i>(US\$ in millions)</i>	<b>Low</b>	<b>Midpoint</b>	<b>High</b>
Total Enterprise Value	\$850	\$1,000	\$1,150
Less: Net Debt	-565	-565	-565
Total Equity Value	\$285	\$435	\$585
82% for 1.75L term loan	\$234	\$357	\$480
Percentage Recovery	31%	48%	65%

*Source: Exhibit F – Valuation Analysis of Document 1233 for Case 18-30155.*

Based on 82% of the mid-point valuation of US\$435.0 million, the 1.75 lien term loan holders are expected to achieve an estimated recovery of 48% under the restructuring plan (given the total principal outstanding for the 1.75 lien term loan was US\$742.2 million). However, the expected recovery of 48 cents on a dollar under the current restructuring plan could vary should the overall valuation of EXCO change depending on commodity prices (from the low of 31% to the high end estimate of 65% recovery).

On average, we purchased the EXCO term loans at 73 cents on a dollar. If our current assumptions regarding this investment prove to be correct, then over the long term we think the value of the EXCO 1.75 lien term loan should be higher than the year-end 2018 price of 44.36 cents on the dollar.

**Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered

by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value. The Fund did not have any excess cash as at December 31, 2018.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2018.

CREDIT DEFAULT SWAPS: None existed at December 31, 2018.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

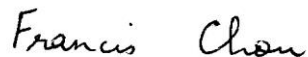
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

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 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 14, 2019, the NAVPU of a Series A unit of the Fund was \$8.71 and the cash position was approximately 4.7% of net assets. The Fund is down 3.4% from the beginning of the year. In U.S. dollars, it is down 1.0%.

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

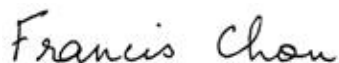
## Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 18,065,510	\$ 26,655,165
Cash and cash equivalents	–	610,696
Receivable for units subscribed	5,000	–
Due from broker	–	326,014
Interest receivable	164,826	263,692
Dividends receivable	–	13,556
Total assets	18,235,336	27,869,123
<b>Liabilities</b>		
Current liabilities:		
Bank overdraft	184,368	–
Accrued expenses	134,483	96,156
Payable for units redeemed	21,000	14,173
Distributions payable	16,574	–
Total liabilities	356,425	110,329
Net assets attributable to unitholders of redeemable units	\$ 17,878,911	\$ 27,758,794
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 15,015,703	\$ 25,485,449
Series F	2,863,208	2,273,345
	\$ 17,878,911	\$ 27,758,794
Number of redeemable units outstanding (note 4):		
Series A	1,666,054	3,104,049
Series F	312,347	270,473
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 9.01	\$ 8.21
Series F	9.17	8.41
U.S. dollars:		
Series A	6.60	6.53
Series F	6.72	6.69

See accompanying notes to financial statements.

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





# CHOU BOND FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31, 2018 and 2017

	2018	2017
<b>Income:</b>		
Interest for distribution purposes and other	\$ 1,163,362	\$ 1,942,751
Dividends	18,315	42,690
Securities lending income (note 7)	1,587	14,342
Foreign currency loss on cash and other net assets	(33,312)	(246,390)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized (loss) gain on financial assets designated at fair value through profit or loss	(718,973)	2,029,697
Net realized gain on held-for-trading investments	–	47,526
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	1,262,392	(4,155,418)
Change in unrealized depreciation on held-for-trading investments	–	(10,765)
	1,693,371	(335,567)
<b>Expenses:</b>		
Management fees (note 5)	259,286	491,143
Custodian fees	54,750	54,750
Audit	25,813	15,591
Filing fees	10,186	7,861
Independent review committee fees	3,099	–
FundSERV fees	5,743	6,181
Legal fees	987	1,676
Transaction costs (note 6)	10,383	19,971
Foreign withholding taxes	–	2,392
Other	3,326	8,961
	373,573	608,526
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,319,798	\$ (944,093)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ 923,485	\$ (859,462)
Series F	396,313	(84,631)
	\$ 1,319,798	\$ (944,093)
Weighted average number of redeemable units outstanding for the year per series:		
Series A	2,178,376	4,111,934
Series F	283,718	333,633
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 0.42	\$ (0.21)
Series F	1.40	(0.25)

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, 2018 and 2017

	2018	2017
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 25,485,449	\$ 38,981,802
Increase (decrease) in net assets attributable to unitholders of redeemable units	923,485	(859,462)
Proceeds from issue of redeemable units	160,075	498,694
Payments on redemption of redeemable units	(11,538,355)	(13,119,730)
Distributions of income to unitholders:		
Investment income	(664,508)	(1,304,956)
Reinvested distributions	649,557	1,289,101
Net assets attributable to unitholders of redeemable units, end of year	15,015,703	25,485,449
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	2,273,345	3,611,320
Increase (decrease) in net assets attributable to unitholders of redeemable units	396,313	(84,631)
Proceeds from issue of redeemable units	508,737	232,841
Payments on redemption of redeemable units	(313,564)	(1,479,840)
Distributions of income to unitholders:		
Investment income	(148,878)	(104,806)
Reinvested distributions	147,255	98,461
Net assets attributable to unitholders of redeemable units, end of year	2,863,208	2,273,345
Total net assets attributable to unitholders of redeemable units, end of year	\$ 17,878,911	\$ 27,758,794

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,319,798	\$ (944,093)
Adjustments for:		
Foreign currency loss on cash and other net assets	33,312	246,390
Net realized loss (gain) on disposal of investments and derivatives	718,973	(2,077,223)
Change in unrealized (appreciation) depreciation on investments and derivatives	(1,262,392)	4,166,183
Change in non-cash operating working capital:		
Decrease in interest receivable	98,866	446,412
Decrease (increase) in dividends receivable	13,556	(13,556)
Increase in accrued expenses	38,327	17,542
Purchase of investments	(2,763,091)	(15,032,246)
Proceeds from sales of investments	12,222,179	20,402,450
Net cash generated from operating activities	10,419,528	7,211,859
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	-	(22,200)
Proceeds from redeemable units issued	663,812	731,535
Amount paid on redemption of redeemable units	(11,845,092)	(14,685,248)
Net cash used in financing activities	(11,181,280)	(13,975,913)
Foreign currency loss on cash and other net assets	(33,312)	(246,390)
Decrease in cash and cash equivalents	(795,064)	(7,010,444)
Cash and cash equivalents, beginning of year	610,696	7,621,140
(Bank overdraft) cash and cash equivalents, end of year	\$ (184,368)	\$ 610,696
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 1,262,228	\$ 2,389,163
Dividends received, net of withholding tax	31,871	26,742
Security lending income received	1,587	14,342

See accompanying notes to financial statements.

# CHOU BOND FUND

## Schedule of Investments

December 31, 2018

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Catalyst Paper Corporation	2,389,016	\$ 1,194,508	\$ 2,928,934
Wow Unlimited Media Inc.	1,165,742	2,675,094	1,398,890
		3,869,602	4,327,824
<b>Bonds</b>			
Atlanticus Holdings Corporation, 5.875%, November 30, 2035, Convertible Bonds	4,800,000	2,124,769	3,636,251
Avangardco Investments Public Limited, 10.000%, October 29, 2018	2,340,267	2,406,889	578,815
Catalyst Paper Corporation, term loans, October 31, 2021	1,055,489	527,196	1,440,953
Exco Resources Inc., term loans, October 26, 2020	4,153,333	4,080,429	2,515,270
Fortress Paper Limited, 7.000%, December 31, 2019, Convertible Bonds, Callable	4,659,000	2,621,102	3,663,512
Taiga Building Products Limited, 7.000%, November 17, 2022, Callable	467,000	482,761	483,345
Ukrlandfarming PLC, 10.875%, March 26, 2018	6,513,021	5,984,449	1,419,540
		18,227,595	13,737,686
<b>Total long</b>		22,097,197	18,065,510
<b>Total investments</b>		22,097,197	18,065,510
<b>Transaction costs</b>		(3,307)	–
<b>Portfolio total</b>		\$ 22,093,890	\$ 18,065,510

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU BOND FUND

## Discussion of Financial Risk Management

Years ended December 31, 2018 and 2017

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### Investment objective and strategies:

The Fund's objective is to invest in securities that it believes are undervalued in order to achieve capital appreciation over the long-term. Conservation of principal and interest production will be fundamental considerations in this objective. 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 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, 2018, the Fund invested approximately \$Nil (2017 – 19.84%) of its net assets in non-investment grade 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. The credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at December 31, 2018, the Fund invested approximately 76.84% (2017 - 49.11%) 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 risk by remaining term to maturity.

Debt instruments by maturity date:

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	2018	2017
Less than 1 year	\$ 1,998,355	\$ 1,900,759
1 - 3 years	7,619,735	9,999,972
3 - 5 years	483,345	1,574,621
Greater than 5 years	3,636,251	5,665,771

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# CHOU BOND FUND

## Discussion of Financial Risk Management (continued)

Years ended December 31, 2018 and 2017

### Financial risk management (continued):

As at December 31, 2018, 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 \$110,923 (2017 - \$176,833).

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 7.82% (2017 - 24.23%) of the Fund's net assets held at December 31, 2018 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2018, the net assets of the Fund would have increased or decreased by approximately \$69,945 or 0.39% (2017 - 336,300 or 1.21%) 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, 2018 and 2017 expressed in CAD are as follows:

<b>2018</b>	<b>Foreign currency forward contract</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ –	\$ 9,716,139	54.3%

<b>2017</b>	<b>Foreign currency forward contract</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ –	\$ 19,982,006	72.0%

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

As at December 31, 2018, 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 \$97,161 (2017 - \$199,820).

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

## CHOU RRSP FUND

(unaudited)

March 14, 2019

Dear Unitholders of Chou RRSP Fund,

After the distribution of \$0.15, the net asset value per unit (“NAVPU”) of a Series A unit of Chou RRSP Fund at December 31, 2018 was \$30.08 compared to \$32.55 at December 31, 2017, a decrease of 7.1%; during the same period, the S&P/TSX Total Return Index decreased 8.9% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was down 14.5% while the S&P/TSX Total Return Index decreased 16.2%.

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

December 31, 2018 (Series A)	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Chou RRSP Fund (\$CAN)	-7.1%	3.0%	1.7%	10.2%	4.6%	6.8%
S&P/TSX (\$CAN)	-8.9%	6.4%	4.1%	7.9%	6.6%	6.6%
Chou RRSP Fund (\$US) <sup>1</sup>	-14.5%	3.5%	-3.3%	8.9%	4.3%	7.4%
S&P/TSX (\$US)	-16.2%	6.9%	-1.0%	6.7%	6.3%	7.2%

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 2018 Results**

The largest decliners in the Fund in 2018 were the equities holdings of Resolute Forest Products, BlackBerry Limited, Interfor Corporation, TVA Group, and Torstar Corporation, as well as the EXCO Resources 1.75 lien term loans.

The equity holdings of Canfor Pulp Products and TWC Enterprises were positive contributors to the Fund’s performance in 2018.

During 2018, the Fund reduced its holdings in Canfor Pulp Products and Torstar Corporation. The Fund also sold its shares in Taiga Building Products.

The Fund increased its holdings in Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals) and added equity holdings of Linamar Corporation, Fairfax Financial Holdings, and Magna International Inc. to its portfolio in 2018.

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<sup>1</sup> The alternative method of purchasing Chou RRSP Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US 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 (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Bank of America TARP Warrants**

In August 2018, the Fund elected to exercise all units of the Bank of America TARP warrants to purchase common shares on a cashless basis.

Overall, our investments in the TARP warrants of Bank of America have performed well since we bought them several years ago. Since August 2018, the Bank of America warrants have been converted to common shares.

<b>Warrants</b>	<b>Average Cost Base (“ACB”)</b>	<b>Price on Warrant Exercise Date*</b>	<b>% Increase from ACB</b>
Bank of America (Jan. 16, 2019)	\$3.43	\$19.52	468%

*\*The warrants were exercised on August 28, 2018.*

The timing of the conversion also proved advantageous for the Fund as we received more shares than we would have at expiration. Here is a comparison of the number of common shares we received for Bank of America at the time of conversion in August 2018 compared to what we would have received upon expiration:

<b>Warrants</b>	<b>Actual Shares Received from Exercise in August 2018</b>	<b>Estimated Shares to be Received upon Expiration*</b>	<b>Percentage Increase</b>
Bank of America (Jan. 16, 2019)	93,377	80,428	16%

*\*Expiration date or the last listing date two or three days prior.*

A unique characteristic of these warrants is the ability to convert them to common shares via a cashless transaction. Instead of paying for the exercise price of the warrants in cash at the time of conversion, these warrants are only payable by netting out the number of common shares issued upon exercise of the warrants.

### **EXCO Resources**

As of December 31, 2018, the Fund owned around US\$5.6 million worth of EXCO Resources (“EXCO”)’s 1.75 lien term loan (converted from the second-lien term loan held previously in Feb. 2017), with approximately US\$12.6 million in par value. This is one of the largest positions in the portfolio, comprising approximately 12% of the assets of the Fund (at market value).

On January 15, 2018, EXCO filed voluntary petitions for a court-supervised reorganization under Chapter 11 of the U.S. Bankruptcy Code to facilitate a restructuring of its balance sheet, which was saddled with expensive transportation and other contracts. During a bankruptcy proceeding, a contract that, for example, has a present value of \$200 million, could potentially be renegotiated to as low as \$20 million. On November 5, 2018, EXCO filed its restructuring plan, stating that holders of the 1.75 lien term loan will receive 82% of the new common stock of the company, subject to dilution by the management incentive plan.

Based on the valuation analysis by EXCO’s investment banking firm, PJT Partners Inc., EXCO’s total enterprise value range was estimated to be between a low of US\$850 million and a high of US\$1,150 million. Taking into account the US\$565.0 million in net debt, this implies a total equity value of between US\$285.0 million and US\$585.0 million that will be allocated to holders of the 1.75 lien term loan and other lower priority claim holders under the restructuring plan.

### Summary of Valuation Analysis:

<i>(US\$ in millions)</i>	<b>Low</b>	<b>Midpoint</b>	<b>High</b>
Total Enterprise Value	\$850	\$1,000	\$1,150
Less: Net Debt	-565	-565	-565
Total Equity Value	\$285	\$435	\$585
82% for 1.75L term loan	\$234	\$357	\$480
Percentage Recovery	31%	48%	65%

*Source: Exhibit F – Valuation Analysis of Document 1233 for Case 18-30155.*

Based on 82% of the mid-point valuation of US\$435.0 million, the 1.75 lien term loan holders are expected to achieve an estimated recovery of 48% under the restructuring plan (given the total principal outstanding for the 1.75 lien term loan was US\$742.2 million). However, the expected recovery of 48 cents on a dollar under the current restructuring plan could vary should the overall valuation of EXCO change depending on commodity prices (from the low of 31% to the high end estimate of 65% recovery).

On average, we purchased the EXCO term loans at 40 cents on a dollar. During the year 2016, we received about US\$1.27 million in cash interest, equivalent to about 12 cents on a dollar. In addition, we also received payment-in-kind interest that was added to the term loan principal. If our current assumptions regarding this investment prove to be correct, then over the long term we think the value of the EXCO 1.75 lien term loan should be higher than the year-end 2018 price of 44.36 cents on the dollar.

### Pharmaceutical Companies

We believe pharmaceutical stocks as a group are selling at attractive valuations. The companies generate their earnings in cash and were selling at less than 10 times earnings at the time of our purchase. Some companies were down more than 50% from their highs, which is what initially caught our attention. As discussed in past reports, we invested in more than two pharmaceutical companies (that is, we utilized a so-called “basket approach”) to reduce the potential risks from issues relating to Food and Drug Administration approval and patent expiration that may be faced by a single company.

### Resolute Forest Products

As of December 31, 2018, the market price of Resolute Forest Products (“RFP”) was US\$7.93 per share, giving a market capitalization of about US\$720 million dollars. This was after US\$1.50 per share in special dividends that we received in December 2018.



With the appointment of Yves Laflamme as RFP's new CEO in February 2018, there is more optimism on what the company can do with its four business segments. However, the stock continues to trade at less than six times earnings.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities outside of Canada and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

The Fund's net cash position was approximately 10% of net assets as at December 31, 2018.

### **Other Matters**


**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 3 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 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of March 14, 2019, the NAVPU of a Series A unit of the Fund was \$31.81 and the cash position was approximately 6.2% of net assets. The Fund is up 5.8% from the beginning of the year. In U.S. dollars, it is up 8.3%.

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  
Fund Manager

# CHOU RRSP FUND

## Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 59,452,144	\$ 63,156,504
Held-for-trading investments (note 8)	–	3,299,372
Cash and cash equivalents	7,126,955	14,247,136
Receivable for redeemable units subscribed	10,000	–
Due from broker	–	7,143
Interest receivable	32,462	26,252
Total assets	66,621,561	80,736,407
<b>Liabilities</b>		
Current liabilities:		
Financial liabilities at fair value through profit or loss	10,239	–
Accrued expenses	354,711	296,198
Payable for units redeemed	27,896	52,839
Distributions payable	7,023	–
Due to broker	–	3,589
Total liabilities	399,869	352,626
Net assets attributable to unitholders of redeemable units	\$ 66,221,692	\$ 80,383,781
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 59,989,119	\$ 73,104,943
Series F	6,232,573	7,278,838
	\$ 66,221,692	\$ 80,383,781
Number of redeemable units outstanding (note 4):		
Series A	1,994,527	2,245,919
Series F	206,334	222,317
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 30.08	\$ 32.55
Series F	30.21	32.74
U.S. dollars:		
Series A	22.03	25.90
Series F	22.13	26.05

See accompanying notes to financial statements.

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

Francis Chou



# CHOU RRSP FUND

## Statements of Comprehensive Loss

Years ended December 31, 2018 and 2017

	2018	2017
<b>Income:</b>		
Interest for distribution purposes and other	\$ 770,161	\$ 3,399,321
Dividends	3,597,572	426,909
Securities lending income (note 7)	21,303	42,465
Foreign currency gain (loss) on cash and other net assets	554,039	(57,953)
Guarantee loss (note 5)	–	(2,935,439)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on financial assets designated at fair value through profit or loss	3,500,106	(11,750,098)
Net realized gain on held-for-trading investments	117,017	8,764,371
Change in unrealized (depreciation) appreciation on financial assets designated at fair value through profit or loss	(8,865,588)	24,916,988
Change in unrealized depreciation on held-for-trading investments	(2,572,192)	(5,428,443)
	(2,877,582)	17,378,121
<b>Expenses:</b>		
Management fees (note 5)	1,303,220	1,332,207
Custodian fees	138,700	138,700
Audit	56,258	33,139
Filing fees	6,861	10,449
Independent review committee fees	11,741	–
FundSERV fees	–	8,550
Legal fees	2,993	2,435
Transaction costs (note 6)	23,774	95,654
Foreign withholding taxes	374,349	471
Other	8,601	20,214
	1,926,497	1,641,819
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (4,804,079)	\$ 15,736,302
(Decrease) increase in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (4,376,212)	\$ 14,326,276
Series F	(427,867)	1,410,026
	\$ (4,804,079)	\$ 15,736,302
Weighted average number of redeemable units outstanding for the year per series:		
Series A	2,111,299	2,626,163
Series F	212,053	224,471
(Decrease) increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (2.07)	\$ 5.46
Series F	(2.02)	6.28

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, 2018 and 2017

	2018	2017
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	\$ 73,104,943	\$ 82,832,921
(Decrease) increase in net assets attributable to unitholders of redeemable units	(4,376,212)	14,326,276
Proceeds from issue of redeemable units	568,378	837,239
Payments on redemption of redeemable units	(9,302,858)	(24,855,484)
Distributions of income to unitholders:		
Investment income	(295,582)	(2,185,666)
Reinvested distributions	290,450	2,149,657
Net assets attributable to unitholders of redeemable units, end of year	59,989,119	73,104,943
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of year	7,278,838	5,932,121
(Decrease) increase in net assets attributable to unitholders of redeemable units	(427,867)	1,410,026
Proceeds from issue of redeemable units	296,837	1,320,836
Payments on redemption of redeemable units	(913,922)	(1,376,408)
Distributions of income to unitholders:		
Investment income	(74,437)	(269,184)
Reinvested distributions	73,124	261,447
Net assets attributable to unitholders of redeemable units, end of year	6,232,573	7,278,838
Total net assets attributable to unitholders of redeemable units, end of year	\$ 66,221,692	\$ 80,383,781

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets attributable to unitholders of redeemable units	\$ (4,804,079)	\$ 15,736,302
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(554,039)	57,953
Net realized (gain) loss on disposal of investments and derivatives	(3,617,123)	2,985,727
Change in unrealized depreciation (appreciation) on investments and derivatives	11,437,780	(16,553,106)
Change in non-cash operating working capital:		
(Increase) decrease in interest receivable	(6,210)	478,547
Increase in accrued expenses	58,513	52,053
Purchase of investments	(10,309,337)	(18,213,410)
Proceeds from sales of investments	9,506,205	53,486,703
Net cash generated from (used in) operating activities	1,711,710	38,030,769
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	578	(43,746)
Proceeds from redeemable units issued	855,215	2,184,075
Amount paid on redemption of redeemable units	(10,241,723)	(26,318,855)
Net cash used in financing activities	(9,385,930)	(24,178,526)
Foreign currency gain (loss) on cash and other net assets	554,039	(57,953)
(Decrease) increase in cash and cash equivalents	(7,120,181)	13,794,290
Cash and cash equivalents, beginning of year	14,247,136	452,846
Cash and cash equivalents, end of year	\$ 7,126,955	\$ 14,247,136
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 763,951	\$ 3,877,868
Dividends received, net of withholding tax	3,223,223	426,438
Security lending income received	21,303	42,465

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Schedule of Investments

December 31, 2018

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Bank of America Corporation	93,376	\$ 1,925,248	\$ 3,141,031
Bausch Health Companies Inc.	298,992	9,496,444	7,539,156
BlackBerry Limited	529,040	4,122,657	5,136,979
Canfor Pulp Products Inc.	293,900	836,324	4,764,119
Dundee Corporation, Class 'A'	300,000	3,060,351	384,000
Fairfax Financial Holdings Limited	2,000	1,344,170	1,201,960
Interfor Corporation	125,500	746,362	1,809,710
Linamar Corporation	24,000	1,332,040	1,087,200
Magna International Inc., Class 'A'	20,000	1,249,418	1,240,967
Overstock.com Inc., Class 'B'	15,198	314,348	316,412
Reitmans (Canada) Limited	348,600	1,914,063	1,293,306
Reitmans (Canada) Limited, Class 'A'	690,800	3,758,099	2,714,844
Resolute Forest Products Inc.	1,224,188	13,844,859	13,253,103
Torstar Corporation, Class 'B'	917,716	20,027,490	724,995
TVA Group Inc.	781,428	11,298,499	1,258,099
TWC Enterprises Limited	201,944	1,077,639	2,629,311
Wow Unlimited Media Inc.	93,680	1,930,473	112,416
		78,278,484	48,607,608
<b>Bonds</b>			
Exco Resources Inc., term loans, October 26, 2020	12,590,186	7,413,295	7,624,651
Taiga Building Products Ltd. 7.000%, November 17, 2022, Callable	3,111,000	3,215,996	3,219,885
		10,629,291	10,844,536
Total long		88,907,775	59,452,144
Total investments		88,907,775	59,452,144
Transaction costs		(50,729)	–
Total Investments in Non-Derivative Financial Assets		88,857,046	59,452,144
Derivative Liabilities		–	(10,239)
Portfolio total		\$ 88,857,046	\$ 59,441,905

## Schedule of Derivative Instruments

Security Name	Strike Price	Expiry Date	Currency	No. of Contracts	Proceeds	Fair Value
<b>Options</b>						
<i>Written Call Options</i>						
Resolute Forest Products Inc.	\$ 11.00	01-18-19	USD	(1,500)	\$ (204,268)	\$ (10,239)
<b>Total Written Call Options</b>					<b>\$ (204,268)</b>	<b>\$ (10,239)</b>
<b>Derivative Assets and Liabilities – Options</b>					<b>\$ (204,268)</b>	<b>\$ (10,239)</b>

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Discussion of Financial Risk Management

Years ended December 31, 2018 and 2017

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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, 2018, the Fund invested approximately \$Nil (2017 – 12.06%) 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 could denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at December 31, 2018, the Fund invested approximately 16.37% (2017 - 4.05%) of its net assets in non-rated debt instruments.

#### (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:

	2018	2017
Less than 1 year	\$ –	\$ –
1 - 3 years	7,624,651	9,693,342
3 - 5 years	3,219,885	3,258,772
Greater than 5 years	–	–

As at December 31, 2018, 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 \$62,443 (2017 - \$102,599).

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, 2018 and 2017

**(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 73.40% (2017 - 62.46%) of the Fund's net assets held at December 31, 2018 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2018, the net assets of the Fund would have increased or decreased by approximately \$2,430,380 or 3.67% (2017 - \$2,510,200 or 3.12%) 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, 2018 and 2017 expressed in CAD are as follows:

<b>2018</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 35,939,623	54.3%

<b>2017</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 47,710,636	59.4%

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including interest receivable, receivable for units subscribed and due from broker) and financial liabilities (including payable for units redeemed, distribution 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, 2018, 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 \$359,396 (2017 - \$477,106).

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



# CHOU FUNDS

## Notes to Financial Statements

Years ended December 31, 2018 and 2017

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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 ("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 29, 2019, which is the date on which the financial statements were authorized for issue by the Manager. These financial statements are presented in Canadian dollars, which is the Funds' functional currency.

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

#### (a) New accounting standards and interpretations:

Effective January 1, 2018 the Funds' adopted IFRS 9, Financial Instruments - Classification and Measurement ("IFRS 9") replacing the existing guidance in IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39"). The new standard requires financial assets to be classified as amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of these assets. The assessment and decision regarding the business model approach used is an accounting judgement.

The classification and measurement of financial liabilities remain generally unchanged with the exception of liabilities recorded at FVTPL. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

Upon transition to IFRS 9, the Funds' financial assets and financial liabilities previously classified as FVTPL under IAS 39 continue to be classified in the same category and there were no changes in the measurement attributes. The adoption of IFRS 9 has also been applied retrospectively and did not result in any changes in the prior period.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 2. Significant accounting policies (continued):

#### (b) 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.

All other financial assets and financial liabilities are classified and measured at amortized cost. 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.

#### (c) 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 the mid-point of their last evaluated bid price and their last evaluated ask price received from recognized investment dealers and their last evaluated 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.

The Funds recognize transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

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.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 2. Significant accounting policies (continued):

#### (c) Fair value measurement (continued):

Derecognition:

The Funds derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or they 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 their contractual obligations are discharged, cancelled, or expired.

#### (d) 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 Fund holds 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 Fund may value positions using its 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. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability, as appropriate.

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 Fund's financial instruments.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 2. Significant accounting policies (continued):

#### (d) Critical accounting estimates and judgments (continued):

##### (ii) Classification and measurement of investments and application of the fair value option:

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Funds' business models, the manner in which all financial assets and financial liabilities are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate classification of the Funds' financial instruments.

These financial statements are presented in Canadian dollars, which is the Funds' functional currency.

#### (e) 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.

#### (f) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statements 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.

#### (g) 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).

#### (h) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term debt instruments with terms to maturity less than 90 days.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 2. Significant accounting policies (continued):

#### (i) Investment transactions and income recognition:

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

Income from investments held is recognized on an accrual basis. Interest income is accrued as earned and dividend income and distributions from investment trusts are recognized on the ex-dividend dates.

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.

#### (j) 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).

#### (k) Derivative transactions:

The Manager may use options to offset potential 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.

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.

#### (l) 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.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 2. Significant accounting policies (continued):

#### (m) 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 redeemable units by the total number of redeemable 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.

#### (n) 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. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (note 7).

#### (o) Classification of redeemable units issued by the Fund:

Under Canadian generally accepted accounting principles, the Funds accounted for its redeemable units as equity. International Accounting Standard ("IAS") 32, Financial Instruments - Presentation, requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Funds' units do not meet the criteria in IAS 32 for classification as equity and, therefore, have been reclassified as financial liabilities on transition to IFRS.

#### (p) Impairments:

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost or FVOCI. Financial assets held by the Fund which are measured at FVTPL will not be subject to the new impairment requirements.

With respect to financial assets classified and measured at cost, the Funds consider both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement date, financial assets classified and measured at cost are due to be settled within the short term. The Funds consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Funds to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

### 3. Financial 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.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

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 of financial risk management under the schedule of investments. The sensitivity analysis shown in the discussion of 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.

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) 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.

#### (c) Market risk:

##### (i) 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 rates 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.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

#### (ii) 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.

#### (iii) 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.

### 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 year 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	
	2018	2017	2018	2017
<b>Chou Associates Fund</b>				
Redeemable units outstanding, beginning of year	2,998,503	3,650,048	363,060	409,648
Add redeemable units issued during the year	97,060	34,895	34,959	80,684
Deduct redeemable units redeemed during the year	(670,782)	(753,221)	(55,209)	(137,447)
Redeemable units outstanding before income distribution	2,424,781	2,931,722	342,810	352,885
Add redeemable units issued on reinvested income	–	66,781	1,385	10,175
Redeemable units outstanding, end of year	2,424,781	2,998,503	344,195	363,060



# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

	Series A		Series F	
	2018	2017	2018	2017
<b>Chou Asia Fund</b>				
Redeemable units outstanding, beginning of year	1,320,405	1,995,197	142,866	151,313
Add redeemable units issued during the year	14,201	20,913	18,327	42,618
Deduct redeemable units redeemed during the year	(176,133)	(695,705)	(36,722)	(51,065)
Redeemable units outstanding before income distribution	1,158,473	1,320,405	124,471	142,866
Add redeemable units issued on reinvested income	–	–	611	–
Redeemable units outstanding, end of year	1,158,473	1,320,405	125,082	142,866
<b>Chou Europe Fund</b>				
Redeemable units outstanding, beginning of year	666,094	1,253,702	83,511	153,652
Add redeemable units issued during the year	97,149	40,095	279,260	23,718
Deduct redeemable units redeemed during the year	(285,586)	(627,703)	(31,819)	(93,859)
Redeemable units outstanding before income distribution	477,657	666,094	330,952	83,511
Add redeemable units issued on reinvested income	–	–	–	–
Redeemable units outstanding, end of year	477,657	666,094	330,952	83,511
<b>Chou Bond Fund</b>				
Redeemable units outstanding, beginning of year	3,104,049	4,432,708	270,473	403,614
Add redeemable units issued during the year	19,532	56,953	63,253	26,239
Deduct redeemable units redeemed during the year	(1,529,598)	(1,542,634)	(37,443)	(171,096)
Redeemable units outstanding before income distribution	1,593,983	2,947,027	296,283	257,757
Add redeemable units issued on reinvested income	72,071	157,022	16,064	11,716
Redeemable units outstanding, end of year	1,666,054	3,104,049	312,347	270,473

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

	Series A		Series F	
	2018	2017	2018	2017
<b>Chou RRSP Fund</b>				
Redeemable units outstanding, beginning of year	2,245,919	3,013,778	222,317	214,149
Add redeemable units issued during the year	16,930	29,070	8,608	45,774
Deduct redeemable units redeemed during the year	(277,979)	(862,965)	(27,010)	(45,594)
Redeemable units outstanding before income distribution	1,984,870	2,179,883	203,915	214,329
Add redeemable units issued on reinvested income	9,657	66,036	2,419	7,988
Redeemable units outstanding, end of year	1,994,527	2,245,919	206,334	222,317

### 5. Related party transactions:

#### (a) 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 1.15% 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:

	2018	2017
Chou Associates Fund	\$ 5,597,465	\$ 6,530,428
Chou Asia Fund	433,731	545,719
Chou Europe Fund	120,310	206,011
Chou Bond Fund	259,286	491,143
Chou RRSP Fund	1,303,220	1,332,207

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 5. Related party transactions (continued):

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

	2018	2017
Chou Associates Fund	\$ 349,814	\$ 459,213
Chou Asia Fund	28,407	36,269
Chou Europe Fund	8,395	13,783
Chou Bond Fund	15,873	30,570
Chou RRSP Fund	81,939	97,081

#### (b) Investments by the Manager and related parties

The Manager, its employees, 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, 2018, the following amounts of Series A redeemable units were held by the Manager, its employees, and directors. No amount of Series F redeemable units was held by the Manager, its employees, and directors.

	2018	2017
Chou Associates Fund	73,124	70,590
Chou Asia Fund	—	—
Chou Europe Fund	2,869	140,504
Chou Bond Fund	370,208	1,367,460
Chou RRSP Fund	33,744	32,185

#### (i) Chou Associates Fund:

As at December 31, 2018, 3.0% of Series A redeemable units (2017 – 2.4%) were held by the Manager, its employees, and directors.

#### (ii) Chou Asia Fund:

As at December 31, 2018, 0.0% of Series A redeemable units (2017 – 0.0%) were held by the Manager, its employees, and directors.

#### (iii) Chou Europe Fund:

As at December 31, 2018, 0.6% of Series A redeemable units (2017 – 21.1%) were held by the Manager, its employees, and directors.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 5. Related party transactions (continued):

#### (iv) Chou Bond Fund:

As at December 31, 2018, 23.2% of Series A redeemable units (2017 – 44.1%) were held by the Manager, its employees, and directors.

#### (v) Chou RRSP Fund:

As at December 31, 2018, 1.7% of Series A redeemable units (2017 – 1.4%) were held by employees of the Manager.

#### (c) Chou Associates Management Inc. Guarantee:

In March 2017, the Manager agreed to unconditionally guarantee the principal loan amount of \$6,429,765 (the "Guaranteed Amount") by Fuel Industries Inc. to Chou RRSP Fund. The Manager shall pay to the Fund an amount equal to the Guaranteed Amount less the amount actually received by the Fund in respect of the Guaranteed Amount from Fuel Industries on or before 5:00 p.m. on December 31, 2018 (the "Shortfall Amount"). The Guaranteed Amount was secured by all past, present and future entitlements of Fuel Industries Inc. to receive Ontario Interactive Digital Media Tax Credits. The Shortfall Amount as at December 31, 2016 was estimated to be \$2,935,439 as reflected in the write down of Fuel term loan investment.

During 2017, the Fund received payments of \$860,460 and sold the remaining portion to the Manager for \$5,569,305 and did not realize a gain or loss on the sale. As a result, the guarantee asset of \$2,935,439 was removed from the balance sheet and the guarantee recovery recorded in 2016 was reversed.

### 6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Chou Associates Fund	\$ 217,130	\$ 625,514
Chou Asia Fund	3,959	8,991
Chou Europe Fund	8,035	17,677
Chou Bond Fund	10,383	19,971
Chou RRSP Fund	23,774	95,654

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 7. Securities lending:

The Funds have entered into a securities lending program with CIBC Mellon. 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 bonds of other governments with appropriate credit ratings. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at December 31, 2018 and 2017 are as follows:

	Market value of securities on loan	Market value of collateral received
<b>2018</b>		
Chou Associates Fund	\$ 12,326,837	\$ 13,199,399
Chou Asia Fund	833,247	945,704
Chou Europe Fund	376,870	397,194
Chou Bond Fund	75,965	79,826
Chou RRSP Fund	1,780,208	1,870,534

	Market value of securities on loan	Market value of collateral received
<b>2017</b>		
Chou Associates Fund	\$ 15,402,464	\$ 16,339,454
Chou Asia Fund	5,684,266	6,023,871
Chou Europe Fund	546,966	574,705
Chou Bond Fund	1,624,958	1,706,402
Chou RRSP Fund	2,575,617	2,705,258

The tables below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 2018 and 2017. They show the gross amount of securities lending revenues generated from the securities lending transactions of the Fund, less any taxes withheld and amounts due to parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

#### Chou Associates Fund:

	<b>December 31, 2018</b>	
Gross securities lending revenue	\$ 1,570,932	100 %
Withholding taxes	(358,759)	(23)%
Agent fees	(242,433)	(15)%
Securities lending revenue	\$ 969,740	62 %

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 7. Securities lending (continued):

	<b>December 31, 2017</b>	
Gross securities lending revenue	\$ 7,819,314	100%
Withholding taxes	(2,233,081)	(29)%
Agent fees	(1,117,245)	(14)%
Securities lending revenue	\$ 4,468,988	57 %

#### **Chou Asia Fund:**

	<b>December 31, 2018</b>	
Gross securities lending revenue	\$ 279,326	100%
Withholding taxes	(7,529)	(3)%
Agent fees	(54,359)	(19)%
Securities lending revenue	\$ 217,438	78%

	<b>December 31, 2017</b>	
Gross securities lending revenue	\$ 135,786	100%
Withholding taxes	(3,700)	(3)%
Agent fees	(26,417)	(19)%
Securities lending revenue	\$ 105,669	78%

#### **Chou Europe Fund:**

	<b>December 31, 2018</b>	
Gross securities lending revenue	\$ 1,111	100%
Withholding taxes	(150)	(14)%
Agent fees	(192)	(17)%
Securities lending revenue	\$ 769	69%

	<b>December 31, 2017</b>	
Gross securities lending revenue	\$ 437	100%
Withholding taxes	(7)	(1)%
Agent fees	(86)	(20)%
Securities lending revenue	\$ 344	79%

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 7. Securities lending (continued):

#### Chou Bond Fund:

	December 31, 2018	
Gross securities lending revenue	\$ 1,983	100%
Withholding taxes	–	0%
Agent fees	(396)	(20)%
Securities lending revenue	\$ 1,587	80%

	December 31, 2017	
Gross securities lending revenue	\$ 24,898	100%
Withholding taxes	(6,971)	(28)%
Agent fees	(3,585)	(14)%
Securities lending revenue	\$ 14,342	58%

#### Chou RRSP Fund:

	December 31, 2018	
Gross securities lending revenue	\$ 27,708	100%
Withholding taxes	(1,083)	(4)%
Agent fees	(5,322)	(19)%
Securities lending revenue	\$ 21,303	77%

	December 31, 2017	
Gross securities lending revenue	\$ 54,784	100%
Withholding taxes	(1,707)	(3)%
Agent fees	(10,612)	(19)%
Securities lending revenue	\$ 42,465	78%

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 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.

#### (a) Chou Associates Fund:

2018	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 250,765,190	\$ —	\$ —	\$ 250,765,190
Bonds	—	—	32,407,065	32,407,065
Warrants	—	—	—	—
<b>Total</b>	<b>\$ 250,765,190</b>	<b>\$ —</b>	<b>\$ 32,407,065</b>	<b>\$ 283,172,255</b>
<b>Financial Liabilities</b>				
Equities	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—
Options	—	600,688	—	600,688
Warrants	—	—	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 600,688</b>	<b>\$ —</b>	<b>\$ 600,688</b>
2017	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 209,424,848	\$ 2,974,879	\$ —	\$ 212,399,727
Bonds	—	43,529,872	—	43,529,872
Warrants	—	48,549,466	—	48,549,466
<b>Total</b>	<b>\$ 209,424,848</b>	<b>\$ 95,054,217</b>	<b>\$ —</b>	<b>\$ 304,479,065</b>
<b>Financial Liabilities</b>				
Equities	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—
Warrants	—	—	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>



# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund (continued):

The following tables reconcile the Fund's Level 3 fair value measurement of financial instruments as at December 31, 2018 and December 31, 2017.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2017	\$ —	\$ —	\$ —
Purchase of investments	—	—	—
Proceeds from sales during the year	—	—	—
Net transfers in (out) during the year	—	32,407,065	32,407,065
Net realized gain on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	—	—	—
Balance, December 31, 2018	\$ —	\$ 32,407,065	\$ 32,407,065

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2016	\$ 982,162	\$ —	\$ 982,162
Purchase of investments	—	—	—
Proceeds from sales during the year	—	—	—
Net transfers in (out) during the year	(982,162)	—	(982,162)
Net realized gain on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	—	—	—
Balance, December 31, 2017	\$ —	\$ —	\$ —

Equities valued at \$895,854 at December 31, 2018 were transferred from Level 2 to Level 1 during 2018 due to an increase in liquidity and trading volumes.

The transfer of equities from Level 3 to Level 2 during the year ended December 31, 2017 is due to additional information becoming publicly available related to the preferred equity security.

Level 2 securities are valued using broker quotes.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (b) Chou Asia Fund:

2018	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 14,244,912	\$ –	\$ –	\$ 14,244,912
Bonds	–	–	–	–
Options	–	–	–	–
Total	\$ 14,244,912	\$ –	\$ –	\$ 14,244,912

2017	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 16,483,615	\$ –	\$ –	\$ 16,483,615
Bonds	–	–	–	–
Options	–	–	–	–
Total	\$ 16,483,615	\$ –	\$ –	\$ 16,483,615

During the years ended December 31, 2018 and 2017, there were no significant transfers between Level 1, Level 2 and Level 3.

#### c) Chou Europe Fund:

2018	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 5,403,768	\$ –	\$ –	\$ 5,403,768
Bonds	–	–	–	–
Options	–	–	–	–
Total	\$ 5,403,768	\$ –	\$ –	\$ 5,403,768

<b>Financial Liabilities</b>				
Equities	\$ –	\$ –	\$ –	\$ –
Bonds	–	–	–	–
Options	–	54,608	–	54,608
Total	\$ –	\$ 54,608	\$ –	\$ 54,608

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### c) Chou Europe Fund (continued):

2017	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 6,775,082	\$ –	\$ –	\$ 6,775,082
Bonds	–	–	–	–
Options	–	–	–	–
<b>Total</b>	<b>\$ 6,775,082</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 6,775,082</b>
<b>Financial Liabilities</b>				
Equities	\$ –	\$ –	\$ –	\$ –
Bonds	–	–	–	–
Options	–	–	–	–
<b>Total</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>

During the years ended December 31, 2018 and 2017, there were no significant transfers between Level 1, Level 2 and Level 3.

#### (d) Chou Bond Fund:

2018	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 1,398,890	\$ –	\$ 2,928,934	\$ 4,327,824
Bonds	–	9,781,463	3,956,223	13,737,686
Options	–	–	–	–
<b>Total</b>	<b>\$ 1,398,890</b>	<b>\$ 9,781,463</b>	<b>\$ 6,885,157</b>	<b>\$ 18,065,510</b>
<b>2017</b>				
<b>Financial Assets</b>				
Equities	\$ 4,261,999	\$ 2,057,535	\$ 407,129	\$ 6,726,663
Bonds	–	18,654,633	1,273,869	19,928,502
Options	–	–	–	–
<b>Total</b>	<b>\$ 4,261,999</b>	<b>\$ 20,712,168</b>	<b>\$ 1,680,998</b>	<b>\$ 26,655,165</b>

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund (continued):

The following tables reconcile the Fund's Level 3 fair value measurement of financial instruments as at December 31, 2018 and December 31, 2017.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2017	\$ 407,129	\$ 1,273,869	\$ 1,680,998
Interest capitalized on loan	–	104,382	104,382
Outstanding principal and interest received	–	(517,795)	(517,795)
Net transfers in during the year	–	2,515,270	2,515,270
Change in unrealized appreciation in value of investments	2,521,805	580,497	3,102,302
Balance, December 31, 2018	\$ 2,928,934	\$ 3,956,223	\$ 6,885,157

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2016	\$ 10,765	\$ –	\$ 10,765
Received in exchange transaction	407,129	1,273,869	1,680,998
Proceeds from sales during the year	(47,526)	–	(47,526)
Net realized gain on sale of investments	47,526	–	47,526
Change in unrealized depreciation in value of investments	(10,765)	–	(10,765)
Balance, December 31, 2017	\$ 407,129	\$ 1,273,869	\$ 1,680,998

During 2018, equities valued at \$1,398,890 were transferred from Level 2 to Level 1 due to an increase in liquidity and trading volumes.

Level 2 securities are valued using broker quotes.

During 2017, term loans valued at \$1,680,968 were exchanged for new term loans and common shares in a privatization proceeding.

During 2017, equities valued at \$2,015,246 were transferred from Level 1 to Level 2 due to a reduction in liquidity and trading volumes.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund (continued):

The Fund invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Fund uses a market-based valuation technique for these positions. The Fund's investment manager determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value. The Fund classifies the fair value of these investments as Level 3.

The fair value of investments in Level 3 bonds, for which there is currently no active market, are calculated using valuation techniques which are accepted in the industry. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA multiples and revenue multiples and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

#### (e) Chou RRSP Fund:

2018	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 48,607,608	\$ —	\$ —	\$ 48,607,608
Bonds	—	3,219,885	7,624,651	10,844,536
Warrants	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 48,607,608</b>	<b>\$ 3,219,885</b>	<b>\$ 7,624,651</b>	<b>\$ 59,452,144</b>

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

2018	Level 1	Level 2	Level 3	Total
<b>Financial Liabilities</b>				
Equities	\$ –	\$ –	\$ –	\$ –
Bonds	–	–	–	–
Options	–	(10,239)	–	(10,239)
Total	\$ –	\$ (10,239)	\$ –	\$ (10,239)

2017	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 48,574,925	\$ 1,629,465	\$ –	\$ 50,204,390
Bonds	–	12,952,114	–	12,952,114
Warrants	–	3,299,372	–	3,299,372
Options	–	–	–	–
Total	\$ 48,574,925	\$ 17,880,951	\$ –	\$ 66,455,876

<b>Financial Liabilities</b>				
Equities	\$ –	\$ –	\$ –	\$ –
Bonds	–	–	–	–
Options	–	–	–	–
Total	\$ –	\$ –	\$ –	\$ –

The following tables reconcile the Fund's Level 3 fair value measurement of financial instruments as at December 31, 2018 and December 31, 2017.

	Equities	Bonds	Total
Balance, December 31, 2017	\$ –	\$ –	\$ –
Net transfers in during the year	–	7,624,651	7,624,651
Balance, December 31, 2018	\$ –	\$ 7,624,651	\$ 7,624,651

	Equities	Bonds	Total
Balance, December 31, 2016	\$ 346,895	\$ 3,494,326	\$ 3,841,221
Investment purchases during the year	–	–	–
Proceeds from sale during the year	–	(5,569,305)	(5,569,305)
Net transfers out during the year	(346,895)	–	(346,895)
Receipts of principal repayment	–	(860,460)	(860,460)
Change in unrealized appreciation in value of investment	–	2,935,439	2,935,439
Balance, December 31, 2017	\$ –	\$ –	\$ –

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

During 2018, equities valued at \$1,405,722 were transferred from Level 2 to Level 1 due an increase in liquidity and trading volumes.

During 2017, equities valued at \$2,094,080 valued at December 31, 2016 were transferred from Level 1 to Level 2 due to a reduction in liquidity and trading volumes.

Equities valued at \$346,895 at December 31, 2016 were transferred from Level 3 to Level 2 due to additional information becoming publicly available related to the preferred equity security.

Level 2 securities are valued using broker quotes.

During 2018, bonds valued at \$7,624,651 were transferred from Level 2 to Level 3.

The fair value of investments in Level 3 bonds, for which there is currently no active market, are calculated using valuation techniques which are accepted in the industry. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA multiples and revenue multiples and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

#### (a) Chou Associates Fund:

	2018	2017
Financial instruments at FVTPL:		
Held-for-trading	\$ (34,527,015)	\$ 17,164,760
Designated at inception	19,035,257	(257,867)
	\$ (15,491,758)	\$ 16,906,893

# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

#### (b) Chou Asia Fund:

	2018	2017
Financial assets at FVTPL:		
Held-for-trading	\$ –	\$ 97
Designated at inception	(3,152,646)	6,792,045
	\$ (3,152,646)	\$ 6,792,142

#### (c) Chou Europe Fund:

	2018	2017
Financial instruments at FVTPL:		
Held-for-trading	\$ 125,172	\$ (1,082)
Designated at inception	(860,719)	721,138
	\$ (735,547)	\$ 720,056

#### (d) Chou Bond Fund:

	2018	2017
Financial instruments at FVTPL:		
Held-for-trading	\$ –	\$ 36,761
Designated at inception	1,691,784	(386,670)
	\$ 1,691,784	\$ (349,909)

#### (e) Chou RRSP Fund:

	2018	2017
Financial instruments at FVTPL:		
Held-for-trading	\$ (2,455,175)	\$ 3,335,928
Designated at inception	(443,710)	13,999,728
	\$ (2,898,885)	\$ 17,335,656



# CHOU FUNDS

## Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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

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:

	2018	2017
Chou Europe Fund		
Capital loss carryforward	\$ 3,048,569	\$ 2,457,076
Non-capital loss carryforward	50,174	–
Chou Bond Fund		
Capital loss carryforward	11,217,036	11,221,707
Chou RRSP Fund		
Capital loss carryforward	463,488	2,566,807
Chou Asia Fund		
Capital loss carryforward	167,964	–

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

**CHOU ASIA FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,850
Dec.31, 2005	12,678
Dec.31, 2006	14,598
Dec.31, 2007	16,972
Dec.31, 2008	13,979
Dec.31, 2009	17,015
Dec.31, 2010	18,786
Dec.31, 2011	17,931
Dec.31, 2012	17,609
Dec.31, 2013	21,799
Dec.31, 2014	23,472
Dec.31, 2015	24,760
Dec.31, 2016	25,284
Dec.31, 2017	30,625
<b>Dec.31, 2018</b>	<b><u>\$26,728</u></b>

**CHOU EUROPE FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,361
Dec.31, 2005	12,650
Dec.31, 2006	14,002
Dec.31, 2007	11,881
Dec.31, 2008	6,655
Dec.31, 2009	8,962
Dec.31, 2010	8,885
Dec.31, 2011	8,451
Dec.31, 2012	10,753
Dec.31, 2013	15,199
Dec.31, 2014	15,342
Dec.31, 2015	15,629
Dec.31, 2016	12,705
Dec.31, 2017	13,161
<b>Dec.31, 2018</b>	<b><u>\$11,856</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	15,944
Dec.31, 2014	17,502
Dec.31, 2015	16,875
Dec.31, 2016	18,411
Dec.31, 2017	18,114
<b>Dec.31, 2018</b>	<b><u>\$20,805</u></b>

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

### CHOU RRSP FUND

Period ended	Total value of shares
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	131,417
Dec.31, 2016	126,719
Dec.31, 2017	154,716
<b>Dec.31, 2018</b>	<b><u>\$143,655</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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