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

ANNUAL REPORT 2017

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

CHOU ASSOCIATES FUND

Period ended	**Total value of shares**
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**

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						
	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Chou Associates Fund							
Total Return	3.80%	-2.79%	-6.95%	12.06%	41.33%	26.96%	-16.90%
Management Expense Ratio (MER)	1.89%	1.87%	1.82%	1.81%	1.82%	1.86%	1.84%
Portfolio turnover rate	26.03%	16.55%	4.06%	7.73%	9.14%	16.58%	32.73%
Net Assets, end of the year (in millions)	$ 376.8	$ 448.8	$ 513.7	$ 557.5	$ 502.4	$ 426.9	$ 391.9
Chou Asia Fund							
Total Return	21.12%	2.12%	5.49%	7.59%	23.90%	-1.80%	-4.55%
Management Expense Ratio (MER)	1.92%	1.90%	1.86%	1.80%	1.81%	1.89%	1.84%
Portfolio turnover rate	0.96%	0.00%	13.56%	0.00%	1.55%	4.53%	8.36%
Net Assets, end of the year (in millions)	$ 29.4	$ 35.6	$ 40.1	$ 39.2	$ 39.7	$ 37.7	$ 48.1
Chou Europe Fund							
Total Return	3.59%	-18.71%	1.87%	0.94%	41.35%	27.24%	-4.90%
Management Expense Ratio (MER)	1.95%	1.89%	1.95%	1.90%	*0.13%	*0.20%	*0.17%
Portfolio turnover rate	21.06%	6.94%	0.00%	9.49%	0.00%	10.49%	14.53%
Net Assets, end of the year (in millions)	$ 7.6	$ 13.7	$ 21.8	$ 23.3	$ 18.9	$ 7.8	$ 6.5
Chou Bond Fund							
Total Return	-1.61%	9.10%	-3.58%	9.77%	23.75%	12.95%	-18.40%
Management Expense Ratio (MER)	1.56%	1.54%	1.45%	1.41%	1.52%	1.45%	1.47%
Portfolio turnover rate	36.79%	50.15%	4.44%	23.91%	13.42%	11.59%	33.88%
Net Assets, end of the year (in millions)	$ 27.8	$ 42.6	$ 42.8	$ 49.5	$ 42.2	$ 44.0	$ 50.1
Chou RRSP Fund							
Total Return	22.09%	-3.57%	-12.83%	14.20%	21.27%	34.15%	-20.73%
Management Expense Ratio (MER)	1.92%	1.93%	1.84%	1.81%	1.82%	1.87%	1.83%
Portfolio turnover rate	23.45%	7.22%	16.76%	4.77%	11.50%	1.43%	2.96%
Net Assets, end of the year (in millions)	$ 80.4	$ 88.8	$ 104.1	$ 128.5	$ 122.3	$ 112.3	$ 100.0

*Management fee after waivers and absorption

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

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CHOU ASSOCIATES FUND

(unaudited)

March 15, 2018

Dear Unitholders of Chou Associates Fund,

After the distribution of $2.63, the net asset value per unit ("NAVPU") of a Series A unit of Chou Associates Fund at December 31, 2017 was $112.18 compared to $110.60 at December 31, 2016, an increase of 3.8%; during the same period, the S&P 500 Total Return Index increased 13.5% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Associates Fund was up 10.9% while the S&P 500 Total Return Index returned 21.8%.

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

December 31, 2017 (Series A)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**	**20 Years**
Chou Associates ($CAN)	3.8%	-2.1%	8.3%	5.5%	5.9%	7.8%
S&P 500 ($CAN)	13.5%	14.3%	21.3%	11.1%	8.3%	6.5%
Chou Associates ($US)[1]	10.9%	-4.7%	3.3%	3.0%	7.5%	8.5%
S&P 500 ($US)	21.8%	11.4%	15.8%	8.5%	9.9%	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 2017 Results

The biggest positive contributors to the Fund's performance in 2017 included JPMorgan Chase and Wells Fargo warrants expiring in October 2018, and the equity securities of Resolute Forest Products, Citigroup Inc., Overstock, and Berkshire Hathaway Class A shares.

Equities of Sears Hometown and Outlet Stores, Ascent Capital Group, and MBIA Inc., as well as EXCO Resources 1.75 lien term loans were the main negative contributors to the Fund's performance in 2017. The Canadian currency strengthened against the US dollar, which also negatively affected the Fund.

During the period, the Fund decreased its holdings of Overstock, JPMorgan Chase warrants, Citigroup Inc. and Nokia OYJ. The Fund also sold holdings in Chicago Bridge & Iron, General

[1] 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.

Motors warrants, Valeant Pharmaceuticals, Sears Canada, and EXCO Resources 8.5% bonds, due April 2022.

New additions during the year included equity stakes in DaVita Inc., Teva Pharmaceutical and Endo International. The latter two securities were sold before the year-end.

U.S. Bank TARP Warrants and Equities

Overall, investments in the TARP warrants and equities of the U.S. banks performed well in 2017, as reflected by the price increases of each position shown in the following table:

Security	Average Cost Base (ACB)*	Price as of Dec. 31, 2016	Price as of Dec. 31, 2017	% Increase From ACB
JPMorgan Chase Warrants (Oct. 28, 2018)	$12.64	$44.27	$66.43	426%
Wells Fargo Warrants (Oct. 28, 2018)	$7.73	$21.33	$27.60	257%
The Goldman Sachs Group	$127.85	$239.45	$254.76	99%
Citigroup Inc.	$24.60	$59.43	$74.41	202%

** As of December 31, 2017*

Note: Prices are in $US.

The maturity date for the TARP warrants is now less than a year away. As the time element grows shorter, we believe the warrant is likely to become more speculative and therefore we expect to further reduce or eliminate the positions in the various TARP warrants. If we believe that the banks in question may still be undervalued, then we will be more likely to invest in the banks' common stock.

However, it is important to note that any future decision to sell additional warrants or buy the common stock will be based on our view of issuers and the markets at such time.

EXCO Resources

As of December 31, 2017, the Fund owned about US$32.8 million worth of EXCO Resources (EXCO)'s 1.75 lien term loans (converted from the second-lien term loans held in Feb. 2017), with US$53.5 million in par value. This is the largest position in the portfolio, comprising more than 10% of the assets of the Fund (at market value).

We liked this security because it met our criteria for investing in the oil and gas sector. The criteria we considered in analyzing this type of investment include that the security should be:

1. A very senior term loan or note;
2. Issued by a company with a significantly limited ability to add senior or pari-passu debt to its capital structure; and
3. Of a type that should the company restructure or go into bankruptcy, the recovery value of the bond is likely to be greater than the current price of the bond.

In addition to the security being very senior in the capital structure, we also hold the view that management seems to be making good decisions with respect to the allocation of capital in a tough environment.

On January 15, 2018, EXCO filed voluntary petitions for a court-supervised reorganization under Chapter 11 of the U.S. Bankruptcy Code in order to facilitate a restructuring of its balance sheet. EXCO Resources is saddled with very expensive transportation and other contracts. During a bankruptcy proceeding, those contracts that have a present value of, for example $200 million, could potentially be renegotiated to as low as $20 million. The longer that EXCO does not restructure through a bankruptcy, the more value is potentially eroded from the 1.75 lien term loans. As of now, we think the value of the EXCO 1.75 lien term loans should be about 80 cents to 100 cents on a dollar. On December 31, 2017, it was priced at 61.25 cents on a dollar.

Valeant and the Pharmaceutical Industry

We continue to believe that the pharmaceutical industry is selling at an undervalued price. In the semi-annual report, we detailed why we thought it was cheap. We wrote the following:

> "*As if Valeant has not given enough pain and anguish to our unitholders, we believe pharmaceutical stocks as a group are selling at attractive valuations. They generate their earnings in cash and most of them are selling at less than 10 times cash earnings. Some of them are down more than 50% from their highs, which is what caught our attention initially. It may look like we are adding more emotional fuel to the fire from our experience with Valeant but we look at mispriced stocks on a case-by-case basis. Given our current favorable view of the pharmaceutical industry generally, as next discussed in greater detail, we expect to invest in stocks of more than two or more pharmaceutical companies (that is, to utilize a so-called "basket approach"), in order to reduce the potential adverse effect on fund returns that could result from Food and Drug Administration (FDA) approval and patent expiration issues faced by a single company.*
>
> ***A Historical Perspective***
>
> *What the pharmaceutical industry has been going through lately reminds me of what happened in the U.S. in 1994. A year earlier, then-president Bill Clinton appointed his wife, Hillary, to head a committee to prepare legislation for overhauling the U.S. health-care system, sending ripples of fear among investors of pharmaceutical stocks. It appeared as if drug prices would be set by the government on the basis of what it would cost to manufacture the product rather than being set by the market. Almost all pharmaceuticals stocks dived for the next of couple of years to unreasonable bargain levels*."

Investors were particularly nervous between Clinton's victory in November 1992 and throughout Clinton's health-care reform proposal from 1993 to 1994 (see Figure 1).

> "*The health-care reform package was eventually defeated in August 1994, sending an air of relief to the pharmaceutical stocks. They returned to their more fairly valued levels set from 1994 to 1998 (see Figure 2). The Republican revolution led by Newt Gingrich gave Republicans control of the Senate and House of Representatives, putting the final nail in the coffin for a health-care overhaul under the Clinton administration.*

Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what politicians can do to manage drug prices.

Below are the graphs that compare the prices of three pharmaceutical stock prices both before and after August 1994.

FIGURE 1.

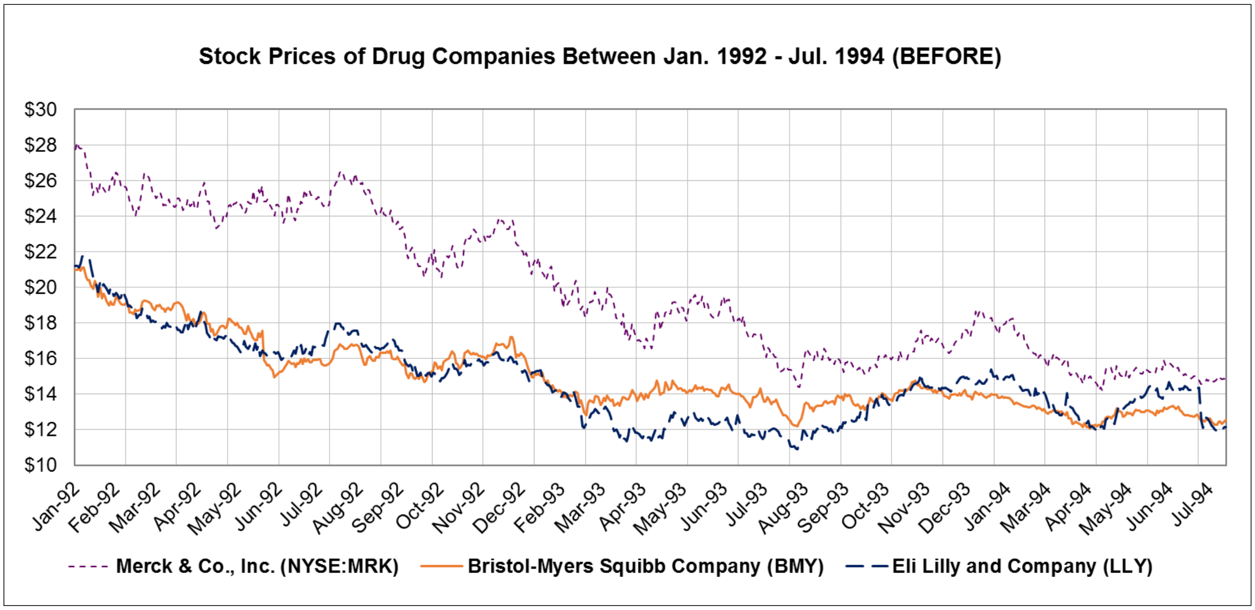
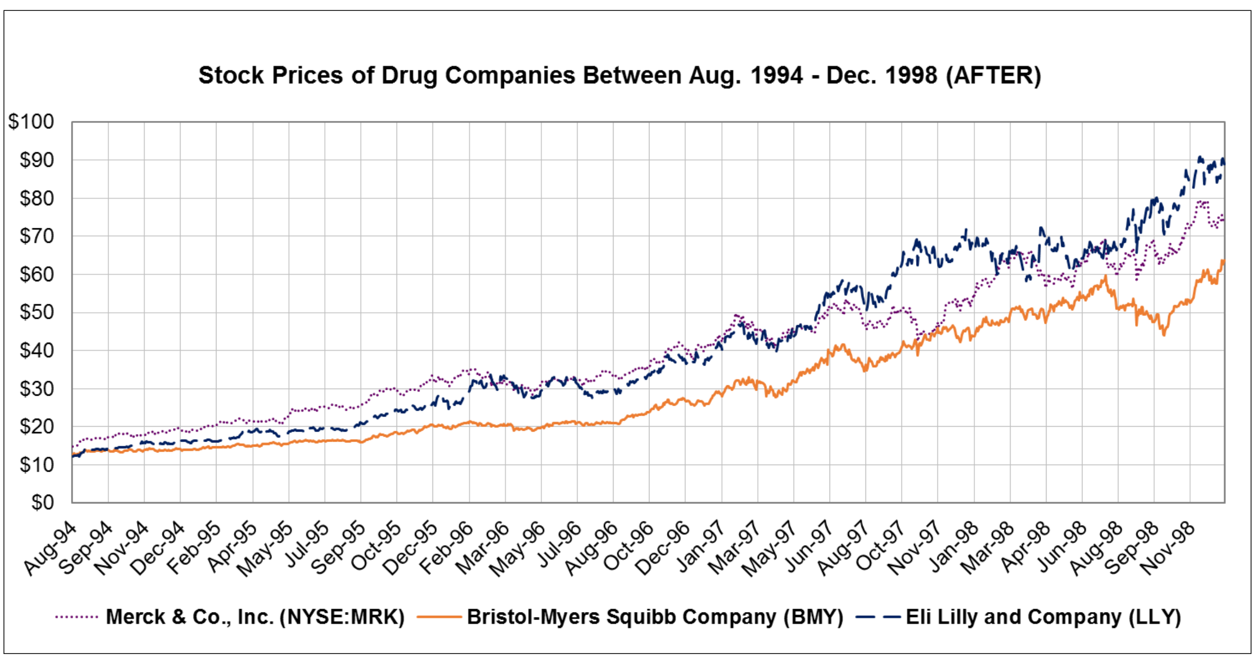


FIGURE 2.



In conclusion, we believe pharmaceutical stocks as a group are selling at attractive valuations, in comparison to the free cash flow and earnings they generate. The recent price drops may present one or more attractive long-term investment opportunities for us."

However, in the beginning of the fourth quarter, due to the amount of U.S. bank warrants and stocks that we sold, we had realized capital gains of close to $18.14 per unit. If we were to pass down the capital gains to our unitholders, it would leave a large tax burden to them during the income tax season. This tax burden would be easier to bear for our unitholders if we had outstanding returns for the last few years. However, the reality is that we did not have the best of years. In order to mitigate the problem or eliminate it, we sold all the pharmaceutical stocks in which we had unrealized losses, hoping to buy them back a month later (31 days) at close to the same price we sold them. Sometimes, there are other stocks in the same industry that are equally cheap and we would buy them as a hedge in case the stocks we sold ran up in price. That is why we added DaVita Inc. to our portfolio at about $54 per share. Unfortunately, since timing was not our greatest strength, the pharmaceutical stocks took off in December and we did not get the full benefit of their rise. Luckily, we had DaVita Inc. in our portfolio, which increased 33% to $72.25 at year-end 2017, softening some of the blow from the rise in the other pharmaceutical stocks.

In the first quarter of 2018, we have bought back some of our holdings in Valeant Pharmaceuticals and Endo International when they came down in price.

Market Index

The latest craze in the investment world has investors buying into market indices in droves in the form of low-fee and passive electronically traded funds (ETFs). As we have noted before, the indices on average are tough competitors. However, when huge sums of money are allocated passively without regard to the value of the underlying securities, it can create serious price distortions. Indexes are made up of a basket of securities, such as the Dow Jones Industrial Average (DJI) which is made up of 30 large publicly traded stocks. Index ETFs seek to mirror and track the benchmark index with the same holdings and weightings. As money is poured into the ETFs of these popular indexes, the major beneficiaries are the constituents of the indexes. As a result, these companies become overvalued while companies outside of the indexes languish in price. This is reminiscent of the Nifty Fifty bubble in the early 1970s. Similar to the current index mania, these 50 well-established growth stocks were considered buys at any price, sending them to levels that were unjustified on the basis of intrinsic value. The delusion was short-lived as they collapsed shortly after in the 1970s. As one Forbes columnist described it, "the Nifty Fifty were taken out and shot one by one."

One question we had was why can't we make a basket of stocks with the same financial and economic characteristics as the indices but trading at lower valuations? Following this logic, we made a crude attempt at constructing such a sample portfolio of 30 stocks based on basic screenings. As of February 2017, the 30 companies in the DJI were trading at an average price of about 30 times earnings, five times book value, 13 times TEV/EBITDA[2], and four times

[2] TEV is short for Total Enterprise Value, the overall economic value of a company; EBITDA is a proxy for cash flow, short for Earnings Before Interest, Taxes, Depreciation and Amortization.

TEV/Sales. Based on the industry weighing, leverage ratio and 10-year average of returns on equity, capital and asset, we selected 30 U.S. stocks with similar financial and economic characteristics as the DJI. Please see the full list of sample portfolios in *Exhibit A*.

AVERAGE[3]	**DJI**	**SAMPLE PORTFOLIO**
Valuation Multiples		
Price / Earnings Per Share	30x	15x
Price / Book Value Per Share	5x	4x
TEV / LTM EBITDA	13x	10x
TEV / LTM Sales	4x	3x
Financials		
Market Capitalization (USD)	$227 billion	$20 billion
Net Debt / EBITDA	2x	2x
Sales – 5 Year CAGR[4]	1%	8%
EBITDA Margin	26%	33%
10-Year Average Return on Equity	24%	24%
10-Year Average Return on Capital	15%	15%
10-Year Average Return on Assets	11%	10%

Source: S&P Capital IQ

As summarized in the chart above, while the sample portfolio shares similar debt levels, margins and long-term returns, they are on average trading at significant discounts with only 15 times price to earnings ratio, almost half that of the DJI. This means ETF investors are paying on average $30 for every dollar of corporate earnings, when they only need to pay $15 for every dollar of earnings in the sample portfolio. In other words, instead of a 6.7% annualized yield, ETF investors in the DJI are only getting a 3.3% annualized yield on average. As a result, we think there is a very high chance that this sample portfolio would beat the DJI index over time.

That being said, there were several limitations to the selection of the sample portfolio. For one, the average size of the companies in terms of market capitalization was much smaller than those of the DJI. The average market capitalization was $20 billion in the sample portfolio compared to $227 billion in the DJI. A case could be made that due to the size differences, the relative competitive positioning and stability of earnings could also differ. However, small companies tend to grow at a faster rate than larger cap companies do, as shown in a five-year sales CAGR of 1% for the DJI, as compared to 8% in the sample portfolio. Secondly, the stocks were weighted equally in the sample portfolio whereas the DJI is price-weighted. With more sophisticated screening and modeling techniques, one could potentially construct a more comparable portfolio at 10 times earnings with solid economics, rather than 15 times earnings in the sample portfolio. While the particular selections could be improved, the basic principle and logic would still apply.

[3] Approximate averages, excluding two highest and lowest values.
[4] CAGR is short for Compounded Annual Growth Rate.

Sears Holdings

In hindsight, our initial assessment of Sears Holdings being worth more than $50 per share a few years ago was most likely too optimistic. This is taking into consideration that we received in excess of $23 per share in distributions from various spin-offs and right offerings, which we later sold in the stock markets. Nevertheless, we believe that the stock may still be cheap at the current valuation, albeit not at the level that we initially anticipated.

In 2017, the annualized average monthly interest rate we received from the stock lending program for Sears Holdings was about 64% (not a typo). This shows how heavily shorted the Sears stock has been. In 2017, the stock price of Sears Holdings dropped $5.71 per share or 62% from $9.29 to $3.58 per share, all in US dollar. However, we received US$7.25 million from security lending interests during the year, equivalent to $6.41 per share, which more than covered the drop in price. Despite the interest payments received however, it has not been a good investment for the Fund.

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^{th} 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 2017 returns and see what the Fund's 10- and 15-year returns were against the S&P 500.

	December 31, 2014		December 31, 2017	
Series A Returns	**10 Years**	**15 Years**	**10 Years**	**15 Years**
Chou Associates Fund ($CAN)	8.3%	10.2%	5.5%	5.9%
S&P 500 ($CAN)	7.3%	2.7%	11.1%	8.3%
Chou Associates Fund ($U.S.)	8.6%	11.8%	3.0%	7.5%
S&P 500 ($U.S.)	7.7%	4.2%	8.5%	9.9%

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, 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.

Most of the time when value investing has not worked, it is during periods when the market is trading at an elevated level. Based on historical ratios, the current prices for stocks are not cheap. However, if interest rates stay at these levels for an extended period of time, the stocks are not expensive at all.

Suffice to say that we are not comfortable with the current market levels and we are not convinced that interest rates will stay this low for an extended period of time. We would consider it fortunate if the market returns more than 5% – 6% a year for the next 10 years from these current lofty levels.

In conclusion, we do not believe that we have entered a new paradigm; there is definite room for improvement in stock selections, but the principle of value investing is sound and, in time the logic will prevail.

Frank Martin – A Great Exemplar

The value funds have not performed well in general against the index over the last five years or so, but we want to bring your attention to how one value fund is coping. One of our good friends is Frank Martin, who runs the investment firm Martin Capital Management (MCM). As a stock market historian and writer with high convictions, he wrote some of the best letters on the Street and we would urge all our investors to read the ones he wrote over the last 10 years at www.mcmadvisors.com/newsmaterials. What particularly piqued our attention this year was the action he took in today's market.

This is what Frank Martin wrote to his investors:

"Prediction is risky business most [of] the time, but in high-adrenaline eras like the present it is downright foolhardy. Rather, our all-consuming preoccupation is with preparedness. Toward that end, we wound down both of our onshore and offshore Hummingbird Funds effective May 31, 2017, and all money originally invested, plus gains, has been returned to investors. Although the earliest lockup didn't expire until late September, we saw no reason to continue charging the higher fund fees, with few compelling investment prospects on the near-term horizon.

As an expression of our gratitude, we offered all Hummingbird investors help in finding a new home. Many chose to return to the safe haven of MCM's separately managed accounts. To demonstrate—in a tangible and personally sacrificial way—our concern about the lack of legitimate opportunities, we reduced our base fee to 50 basis points for all MCM clients."

One must truly admire what Frank Martin has done. When almost every portfolio manager is chasing more assets and charging higher and higher fees even when they know that there are very few opportunities in the market, he insisted on doing what is right for his investors. Avoiding all temptations to do otherwise, he wound down his funds and reduced his fees to 50 basis points for all MCM clients. We should all salute him for being such an exemplar.

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 cash position was approximately 19% of net assets as at December 31, 2017. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, 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, 2017.

CREDIT DEFAULT SWAPS: None existed at December 31, 2017.

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 2017 IRC Annual Report is available on our website www.choufunds.com.

CHANGE OF AUDITOR: On September 27, 2017, the Chou Funds' Independent Review Committee has approved a change of the Funds' auditor from KPMG LLP to Grant Thornton LLP, effective as of December 15, 2017. This change was made by Chou Associates Management Inc. solely for operational purposes and not as a result of any disagreements with the former auditor.

RISK RATING: As of August 25, 2017, the risk rating of the Fund was changed from "Medium to High" to "Medium". The Manager used the investment risk classification methodology under NI 81-102 Investment Funds, which came into force effective Sept. 1, 2017, to determine the risk rating of each Fund. These risk re-classifications are not as a result of changes to the investment objectives, strategies or portfolio management of the Fund.

As of March 15, 2018, the NAVPU of a Series A unit of the Fund was $107.27 and the cash position was approximately 7.1% of net assets. The Fund is down 4.4% from the beginning of the year. In U.S. dollars, it is down 7.9%.

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

Francis Chou
Fund Manager

Exhibit A - Sample Portfolio

Company Name	Market Cap (USD mm)	P/E	P/BV	TEV/LTM EBITDA	TEV/LTM Sales	Net Debt / EBITDA	5-Year Sales CAGR	EBITDA Margin	Average ROE (10 Years)	Average ROC (10 Years)	Average ROA (10 Years)	Industry Classification
Altria Group, Inc.	$ 119,465	11.9x	7.8x	12.7x	6.4x	1.3x	2.2%	50.9%	100.6%	24.6%	12.1%	Consumer Discretionary
Union Pacific Corporation	$ 104,327	10.0x	4.2x	11.8x	5.6x	1.5x	0.3%	48.3%	21.0%	12.9%	8.1%	Industrials
Time Warner Inc.	$ 73,021	14.2x	2.6x	10.6x	3.0x	2.4x	4.3%	28.7%	9.3%	7.4%	5.4%	Media
Infosys Limited	$ 38,290	16.9x	4.1x	12.5x	3.3x	NM	8.2%	26.9%	27.4%	18.9%	16.2%	Information Technology
Waste Management, Inc.	$ 36,353	19.2x	6.1x	11.7x	3.1x	2.4x	1.2%	27.6%	17.5%	8.8%	6.3%	Industrials
Southwest Airlines Co.	$ 33,433	9.9x	3.2x	7.6x	1.6x	0.1x	4.4%	21.2%	14.0%	10.7%	5.7%	Airlines
T. Rowe Price Group, Inc.	$ 26,776	18.5x	4.7x	11.7x	5.1x	NM	9.7%	46.0%	22.8%	21.9%	20.0%	Investment Management
Ameriprise Financial, Inc.	$ 23,188	16.7x	3.9x	7.7x	1.9x	0.8x	3.3%	27.9%	13.4%	10.7%	1.3%	Investment Management
Dr Pepper Snapple Group, Inc.	$ 20,472	19.5x	8.4x	15.9x	3.8x	2.8x	2.2%	23.6%	24.9%	12.6%	7.9%	Consumer Staples
HCL Technologies Limited	$ 20,282	15.4x	3.8x	11.5x	2.6x	NM	25.6%	22.6%	30.1%	19.1%	13.2%	Information Technology
Campbell Soup Company	$ 13,109	12.7x	6.8x	8.6x	2.1x	1.6x	1.9%	24.9%	62.0%	18.1%	11.3%	Consumer Staples
Church & Dwight Co., Inc.	$ 11,943	16.6x	5.4x	16.3x	3.6x	2.4x	5.3%	22.7%	19.4%	12.4%	9.3%	Consumer Staples
Scripps Networks Interactive, Inc.	$ 11,310	18.8x	4.3x	9.0x	4.1x	1.7x	9.1%	43.6%	30.4%	17.2%	14.8%	Media
Packaging Corporation of America	$ 11,035	16.8x	5.6x	10.3x	2.0x	1.7x	17.8%	20.2%	26.0%	11.7%	8.5%	Materials
Snap-on Incorporated	$ 8,991	16.8x	3.1x	10.1x	2.4x	1.7x	5.2%	25.2%	18.3%	12.5%	9.0%	Industrials
Alaska Air Group, Inc.	$ 7,830	7.7x	2.1x	5.1x	1.1x	0.5x	11.2%	22.0%	22.0%	13.0%	6.6%	Airlines
Gentex Corporation	$ 6,319	16.5x	3.2x	9.1x	3.1x	NM	10.3%	34.7%	16.4%	13.4%	12.1%	Consumer Discretionary
Allison Transmission Holdings	$ 5,464	11.7x	8.0x	9.2x	3.4x	2.7x	1.1%	37.8%	22.8%	7.6%	6.3%	Industrials
United Therapeutics Corporation	$ 5,042	12.6x	2.4x	3.9x	2.3x	NM	13.5%	61.2%	19.6%	17.4%	13.7%	Healthcare
Eagle Materials Inc.	$ 4,993	19.6x	3.6x	12.1x	3.9x	1.8x	19.6%	30.2%	14.9%	8.1%	6.3%	Materials
Masimo Corporation	$ 4,304	13.5x	6.1x	20.8x	5.1x	NM	9.8%	25.7%	33.0%	20.3%	15.1%	Healthcare
Cambrex Corporation	$ 1,703	16.9x	3.2x	8.8x	2.8x	NM	14.1%	32.7%	17.4%	11.8%	7.6%	Healthcare
MKS Instruments, Inc.	$ 6,011	18.1x	3.8x	11.7x	3.2x	NM	24.4%	26.4%	8.1%	7.9%	6.9%	Information Technology
EQT Midstream Partners	$ 4,938	11.9x	2.3x	8.8x	6.9x	1.7x	33.1%	81.3%	21.0%	13.8%	11.3%	Energy
Cirrus Logic	$ 2,684	15.4x	2.2x	6.8x	1.5x	NM	29.2%	23.4%	18.6%	11.0%	9.3%	Information Technology
InterDigital, Inc.	$ 2,415	14.4x	2.9x	4.4x	3.1x	NM	-4.3%	67.3%	32.3%	26.7%	11.5%	Information Technology
Alliance Resource Partners	$ 2,314	6.3x	2.1x	4.8x	1.6x	0.9x	-2.5%	33.3%	51.5%	17.3%	13.1%	Energy
NIC Inc.	$ 901	17.8x	5.4x	8.8x	2.2x	NM	9.9%	25.3%	32.1%	31.8%	16.9%	Information Technology
Dorchester Minerals	$ 508	16.5x	6.1x	12.7x	9.5x	NM	-5.0%	83.7%	30.4%	18.9%	18.7%	Energy
American Outdoor Brands Corporatioı	$ 543	9.1x	1.4x	5.0x	1.1x	1.4x	8.1%	20.8%	18.0%	18.6%	13.0%	Consumer Discretionary
MEAN*	**$ 20,265**	**15x**	**4x**	**10x**	**3x**	**2x**	**8%**	**33%**	**24%**	**15%**	**10%**	
MEDIAN	**$ 8,410**	**16x**	**4x**	**10x**	**3x**	**2x**	**8%**	**28%**	**21%**	**13%**	**10%**	

** Excluding two highest and lowest values for percentages.*
Source: S&P Capital IQ, data as of February 2017.

Management's Responsibility for Financial Reporting

To the unitholders of the Chou Funds:

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

Management has applied appropriate processes to ensure that the statements contain relevant and reliable financial information. The financial statements have been produced in accordance with accounting principles generally accepted in Canada and include certain amounts based on estimates and 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

Francis Chou
Chou Associates Management Inc.
March 15, 2018

Grant Thornton

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"

We have audited the accompanying financial statements of each of the Funds, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the year ended December 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

Grant Thornton

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other matter

The financial statements of the Funds for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 29, 2017.

Grant Thornton LLP

Markham, Canada
March 29, 2018

Chartered Professional Accountants
Licensed Public Accountants

CHOU ASSOCIATES FUND

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	$ 255,929,599	$ 323,337,876
Held-for-trading investments (note 8)	48,549,466	95,815,629
Cash and cash equivalents	73,223,175	29,731,822
Receivable for redeemable units subscribed	7,695	52,712
Due from broker	39,038	906,261
Interest receivable	139,588	229,071
Dividends receivable	120,640	-
Total assets	378,009,201	450,073,371
Liabilities		
Current liabilities:		
Accrued expenses	1,020,214	851,347
Payable for units redeemed	142,118	464,886
Due to broker	38,812	4,873
Total liabilities	1,201,144	1,321,106
Net assets attributable to unitholders of redeemable units	$ 376,808,057	$ 448,752,265
Net assets attributable to unitholders of redeemable units:		
Series A	$ 336,324,537	$ 403,677,931
Series F	40,483,520	45,074,334
	$ 376,808,057	$ 448,752,265
Number of redeemable units outstanding (note 4):		
Series A	2,998,503	3,650,048
Series F	363,060	409,648
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	$ 112.16	$ 110.60
Series F	111.51	110.03
U.S. dollars:		
Series A	89.23	82.37
Series F	88.71	81.95

See accompanying notes to financial statements.

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

Francis Chou

CHOU ASSOCIATES FUND

Statements of Comprehensive Income (Loss)

Years ended December 31, 2017 and 2016

	2017	2016
Income:		
Interest for distribution purposes and other	$ 9,736,195	$ 9,507,473
Dividends	2,056,479	2,681,085
Securities lending income (note 7)	4,468,988	3,195,369
Derivative loss	(68)	(6,391,325)
Foreign currency (loss) gain on cash and other net assets	(297,709)	2,147,494
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	(43,034,436)	15,677,106
Net realized gain on held-for-trading investments	52,356,952	-
Change in unrealized appreciation (depreciation) of financial assets designated at fair value through profit and loss	31,281,604	(72,502,509)
Change in unrealized (depreciation) appreciation on held-for-trading investments	(35,192,124)	34,087,036
	21,375,881	(11,598,271)
Expenses:		
Management fees (note 5)	6,530,428	6,935,287
Custodian fees	547,500	549,000
Audit	151,249	96,705
Filing fees	74,699	98,202
FundSERV fees	36,234	26,805
Legal fees	18,250	18,300
Transaction costs (note 6)	625,514	220,337
Foreign withholding taxes	359,527	585,326
Other	54,716	29,227
	8,398,117	8,559,189
Increase (decrease) in net assets attributable to unitholders of redeemable units	$ 12,977,764	$ (20,157,460)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	$ 11,600,045	$ (19,069,984)
Series F	1,377,719	(1,087,476)
	$ 12,977,764	$ (20,157,460)
Weighted average number of redeemable units outstanding for the year per series:		
Series A	3,325,536	3,851,729
Series F	385,841	409,068
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	$ 3.49	$ (4.95)
Series F	3.57	(2.66)

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, 2017 and 2016

	2017	2016
Series A		
Net assets attributable to unitholders of redeemable units, beginning of year	$ 403,677,931	$ 468,191,243
Increase (decrease) in net assets attributable to unitholders of redeemable units	11,600,045	(19,069,984)
Proceeds from issue of redeemable units	3,822,668	17,584,975
Payments on redemption of redeemable units	(82,563,368)	(62,882,131)
Distributions of income to unitholders:		
Investment income	(7,703,917)	(5,783,399)
Capital gains	-	(237,292)
Reinvested distributions	7,491,178	5,874,519
Net assets attributable to unitholders of redeemable units, end of year	336,324,537	403,677,931
Series F		
Net assets attributable to unitholders of redeemable units, beginning of year	45,074,334	45,520,102
Increase (decrease) in net assets attributable to unitholders of redeemable units	1,377,719	(1,087,476)
Proceeds from issue of redeemable units	8,818,729	14,021,311
Payments on redemption of redeemable units	(14,739,832)	(13,284,993)
Distributions of income to unitholders:		
Investment income	(1,182,039)	(842,354)
Capital gains	-	(24,991)
Reinvested distributions	1,134,609	772,735
Net assets attributable to unitholders of redeemable units, end of year	40,483,520	45,074,334
Total net assets attributable to unitholders of redeemable units, end of year	376,808,057	$ 448,752,265

See accompanying notes to financial statements.

CHOU ASSOCIATES FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	$ 12,977,764	$ (20,157,460)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	297,709	(2,147,494)
Net realized gain on financial assets designated at fair value through profit or loss	(9,322,516)	(15,677,106)
Change in unrealized depreciation on investments and derivatives	3,910,520	38,415,473
Change in non-cash operating working capital:		
Decrease (increase) in interest receivable	89,483	(68,691)
(Increase) decrease in other receivable	(120,640)	–
Increase in accrued expenses	168,867	65,686
Purchase of investments	(97,893,568)	(135,873,197)
Proceeds from sales of investments	218,881,166	59,877,896
Net cash generated from (used in) operating activities	128,988,785	(75,564,893)
Cash flows from financing activities:		
Distributions paid to unitholders	(260,169)	(284,449)
Proceeds from redeemable units issued	12,686,414	31,995,764
Amount paid on redemption of redeemable units	(97,625,968)	(76,176,253)
Net cash generated from (used in) financing activities	(85,199,723)	(44,464,938)
Foreign currency (loss) gain on cash and other net assets	(297,709)	2,147,494
Increase (decrease) in cash and cash equivalents	43,491,353	(117,882,337)
Cash and cash equivalents, beginning of year	29,731,822	147,614,159
Cash and cash equivalents, end of year	$ 73,233,175	$ 29,731,822
Supplemental information:		
Interest received, net of withholding tax	$ 9,825,678	$ 9,438,782
Dividends received, net of withholding tax	1,576,312	2,680,500
Security lending income received	4,468,988	3,195,369

See accompanying notes to financial statements.

CHOU ASSOCIATES FUND

Schedule of Investments

December 31, 2017

	Number of securities	Cost	Fair value
Equities*			
Ascent Capital Group Inc., Series 'A'	306,000	$ 14,141,686	$ 4,419,537
Berkshire Hathaway Inc., Class 'A'	150	15,819,918	56,112,482
Citigroup Inc.	210,000	5,305,697	19,642,008
DaVita Inc.	140,743	9,696,416	12,782,033
MBIA Inc.	1,080,797	7,479,425	9,944,672
Nokia OYJ, ADR	850,000	2,001,327	4,978,977
Overstock.com Inc.	6,650	133,845	534,143
Overstock.com Inc. Preferred	43,030	890,011	2,974,879
Resolute Forest Products Inc.	3,347,772	50,233,049	46,500,051
Sanofi, ADR	390,000	13,783,524	21,079,890
Sears Holdings Corporation	1,131,610	32,759,977	5,092,313
Sears Hometown and Outlet Stores Inc.	1,322,209	24,776,606	4,321,243
The Goldman Sachs Group Inc.	75,000	9,384,141	24,017,499
		186,405,622	212,399,727
Bonds			
Dex Media West Inc., term loans, July 29, 2021	692,012	917,573	887,256
Exco Resources Inc., term loans, October 26, 2020	53,512,087	37,508,648	41,199,624
Westmoreland Coal Company, 8.75%, January 1, 2022, Callable	2,523,000	2,033,712	1,442,992
		40,459,933	43,529,872
Total long		226,865,555	255,929,599
Held-for-trading			
JPMorgan Chase & Company, warrants, October 28, 2018	166,977	2,064,743	13,942,999
Wells Fargo & Company, warrants, October 28, 2018	997,500	7,995,396	34,606,467
		10,060,139	48,549,466
Total held-for-trading		10,060,139	48,549,466
Total investments		236,925,694	304,479,065
Transaction costs		(272,885)	–
Portfolio total		$ 236,652,809	$ 304,479,065

*Common shares unless indicated otherwise

See accompanying notes to financial statements.

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, 2017, the Fund invested approximately 11.31% (2016 – 12.16%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at December 31, 2017, the Fund invested approximately 0.24% (2016 – 0.56%) 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:

	2017	2016
Less than 1 year	$ –	$ 2,511,169
1 - 3 years	41,199,624	–
3 - 5 years	2,330,248	50,426,227
Greater than 5 years	–	4,022,381

As at December 31, 2017, 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 $303,212 (2016 - $518,861).

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

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 56.41% (2016 - 59.36%) of the Fund's net assets held at December 31, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2017, the net assets of the Fund would have increased or decreased by approximately $10,620,000 or 2.82% (2016 - $13,318,905 or 2.97%) 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, 2017 and 2016 are as follows:

2017	Foreign currency forward contract	Financial instruments	Percentage of net asset value
United States dollar	$ –	$ 378,004,399	100.3

2016	Foreign currency forward contract	Financial instruments	Percentage of net asset value
United States dollar	$ –	$ 430,181,228	95.6

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 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, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately $3,780,044 (2016 - $4,301,812).

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

CHOU ASIA FUND
(unaudited)

March 15, 2018

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, 2017 was $20.08 compared to $16.58 at December 31, 2016, an increase of 21.1%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars returned 23.2%. In U.S. dollars, a Series A unit of Chou Asia Fund was up 29.4% while the MSCI AC Asia Pacific Total Return Index returned 32.3%.

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

December 31, 2017 (Series A)	1 Year	3 Years	5 Years	10 Years
Chou Asia ($CAN)	21.1%	9.3%	11.7%	6.1%
MSCI AC Asia Pacific TR ($CAN)	23.2%	14.0%	14.4%	6.5%
Chou Asia ($US)[1]	29.4%	6.4%	6.6%	3.6%
MSCI AC Asia Pacific TR ($US)	32.3%	11.1%	9.2%	4.0%

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

Factors Influencing the 2017 Results

Top gainers in 2017 were the equity holdings of POSCO Sponsored ADR, BYD Company Limited, BYD Electronic Company, China Yuchai International, and Pyne Gould Corporation.

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

The Fund reduced holdings of BYD Electronic Company and increased holdings of Pyne Gould Corporation in 2017.

Portfolio Commentary

The average month-end cash balance for 2017 was approximately 54.3%. At year-end 2017, the net cash balance was approximately 44.4% – which tells its own story. We continue to be

[1] 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.

concerned with economies in Asia. We are not sure how President Trump's purported trade policies will affect the economies in those regions.

Most of the stock picks have worked out quite well. Some of them are getting close to intrinsic value, hence we have started to sell BYD Electronics Company. At the time we bought it for less than HK$2 per share, it was selling below its net-net working capital per share and currently we were able to sell some of it for HK$20.50 per share.

We did two things right in that investment. First, we bought it cheap for a fine operating company. And secondly, we bought enough of it that as it trades closer to its intrinsic value, it would make a meaningful difference to the performance of the Fund.

Most investors are not aware that our 10-year performance came in with roughly 50% invested in equities. The average monthly cash balance over the past 10 years was about 47%.

We are awaiting further developments and remaining cautious of the markets. In addition, we are also looking at the South Korean, Indian, 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 cash position was approximately 44% of net assets as at December 31, 2017. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, 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, 2017.

CREDIT DEFAULT SWAPS: None existed at December 31, 2017.

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 2017 IRC Annual Report is available on our website www.choufunds.com.

RISK RATING: As of August 25, 2017, the risk rating of the Fund was changed from “Medium to High” to “Low to Medium”. The Manager used the investment risk classification methodology under NI 81-102 Investment Funds, which came into force effective Sept. 1, 2017, to determine the risk rating of each Fund. These risk re-classifications are not as a result of changes to the investment objectives, strategies or portfolio management of the Fund.

CHANGE OF AUDITOR: On September 27, 2017, the Chou Funds’ Independent Review Committee has approved a change of the Funds’ auditor from KPMG LLP to Grant Thornton LLP, effective as of December 15, 2017. This change was made by Chou Associates Management Inc. solely for operational purposes and not as a result of any disagreements with the former auditor.

As of March 15, 2018, the NAVPU of a Series A unit of the Fund was $20.98 and the cash position was approximately 41.8% of net assets. The Fund is up 4.5% from the beginning of the year. In U.S. dollars, it is up 0.7%.

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

Francis Chou
Fund Manager

CHOU ASIA FUND

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	$ 16,483,615	$ 11,591,550
Cash and cash equivalents	13,088,779	24,109,087
Receivable for redeemable units subscribed	500	1,000
Dividends receivable	4,481	970
Total assets	29,577,375	35,702,607
Liabilities		
Current liabilities:		
Accrued expenses	105,145	82,044
Distributions payable	33,321	–
Total liabilities	138,466	82,044
Net assets attributable to unitholders of redeemable units	$ 29,438,909	$ 35,620,563
Net assets attributable to unitholders of redeemable units:		
Series A	$ 26,507,737	$ 33,071,841
Series F	2,931,172	2,548,722
	$ 29,438,909	$ 35,620,563
Number of redeemable units outstanding (note 4):		
Series A	1,320,405	1,995,196
Series F	142,866	151,314
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	$ 20.08	$ 16.58
Series F	20.52	16.84
U.S. dollars:		
Series A	15.97	12.35
Series F	16.32	12.54

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, 2017 and 2016

	2017	2016
Income:		
Dividends	$ 194,710	$ 203,508
Securities lending income (note 7)	105,669	44,996
Derivative income (loss)	97	(3,275)
Foreign currency (loss) gain on cash and other net assets	(1,125,526)	369,272
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	2,729,917	(1,007,133)
Change in unrealized appreciation on financial assets designated at fair value through profit or loss	4,992,944	1,883,200
	6,897,811	1,490,568
Expenses:		
Management fees (note 5)	545,719	620,039
Custodian fees	43,800	43,920
Audit	14,336	21,781
Filing fees	7,281	9,548
FundSERV fees	5,529	2,173
Legal fees	1,435	–
Transaction costs (note 6)	8,991	2,630
Foreign withholding taxes	13,782	15,218
Other	7,923	4,947
	648,796	720,256
Increase in net assets attributable to unitholders of redeemable units	$ 6,249,015	$ 770,312
Increase in net assets attributable to unitholders of redeemable units per series:		
Series A	$ 5,731,077	$ 701,688
Series F	517,938	68,624
	$ 6,249,015	$ 770,312
Weighted average number of redeemable units outstanding for the year per series:		
Series A	1,664,614	2,146,378
Series F	141,917	155,488
Increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	$ 3.45	$ 0.33
Series F	3.65	0.45

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, 2017 and 2016

	2017	2016
Series A		
Net assets attributable to unitholders of redeemable units, beginning of year	$ 33,071,841	$ 37,670,566
Increase in net assets attributable to unitholders of redeemable units	5,731,077	701,688
Proceeds from issue of redeemable units	389,442	780,342
Payments on redemption of redeemable units	(12,684,623)	(6,080,911)
Reinvested distributions	-	156
Net assets attributable to unitholders of redeemable units, end of year	26,507,737	33,071,841
Series F		
Net assets attributable to unitholders of redeemable units, beginning of year	2,548,722	2,445,647
Increase in net assets attributable to unitholders of redeemable units	517,938	68,624
Proceeds from issue of redeemable units	790,223	569,373
Payments on redemption of redeemable units	(925,711)	(535,035)
Reinvested distributions	-	113
Net assets attributable to unitholders of redeemable units, end of year	2,931,172	2,548,722
Total net assets attributable to unitholders of redeemable units, end of year	$ 29,438,909	$ 35,620,563

See accompanying notes to financial statements.

CHOU ASIA FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Increase in net assets attributable to unitholders of redeemable units	$	6,249,015	$	770,312
Adjustments for:				
Foreign currency loss (gain) on cash and other net assets		1,125,526		(369,272)
Net realized (gain) loss on financial assets designated at fair value through profit or loss		(2,729,917)		1,007,133
Change in unrealized depreciation on investments and derivatives		(4,992,944)		(1,883,200)
Change in non-cash operating working capital:				
Increase in dividends receivable		(3,511)		(970)
Increase in accrued expenses		23,101		21,816
Purchase of investments		(141,704)		–
Proceeds from sales of investments		2,972,500		356,313
Net cash generated from (used in) operating activities		2,502,066		(97,868)
Cash flows from financing activities:				
Distributions paid to unitholders		-		(97,229)
Proceeds from redeemable units issued		1,180,165		1,353,673
Amount paid on redemption of redeemable units		(13,577,013)		(6,615,946)
Net cash used in financing activities		(12,396,848)		(5,359,502)
Foreign currency (loss) gain on cash and other net assets		(1,125,526)		369,272
Decrease in cash and cash equivalents		(11,020,308)		(5,088,098)
Cash and cash equivalents, beginning of year		24,109,087		29,197,185
Cash and cash equivalents, end of year	$	13,088,779	$	24,109,087
Supplemental information:				
Dividends received, net of withholding tax	$	177,417	$	202,523
Security lending income received		105,669		44,996

See accompanying notes to financial statements.

CHOU ASIA FUND

Schedule of Investments

December 31, 2017

	Number of securities	Cost	Fair value
Equities*			
AJIS Company Limited	30,400	$ 213,157	$ 998,094
BYD Company Limited, Class ‘H’	573,000	989,812	6,278,090
BYD Electronic (International) Company Limited	798,000	193,535	2,185,185
China Yuchai International Limited	73,364	1,242,575	2,213,245
Hanfeng Evergreen Inc.	95,850	228,548	–
POSCO, ADR	21,000	1,259,883	2,062,398
Pyne Gould Corporation Limited	10,277,219	2,297,846	2,746,603
Total long		6,425,356	16,483,615
Total investments		6,425,356	16,483,615
Transaction costs		(8,581)	–
Portfolio total		$ 6,416,775	$ 16,483,615

*Common shares unless indicated otherwise

See accompanying notes to financial statements.

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 55.99% (2016 – 32.54%) of the Fund's net assets held at December 31, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2017, the net assets of the Fund would have increased or decreased by approximately $824,000 or 2.80% (2016 - $579,577 or 1.63%) 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, 2017 and 2016 are as follows:

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

Financial risk management (continued):

2016		Financial instruments	Percentage of net asset value
Hong Kong dollar	$	16,407,456	46.1
United States dollar	$	8,089,524	22.7
New Zealand dollar	$	1,969,431	5.5
Japanese yen	¥	962,948	2.7
Singapore dollar	$	161,692	0.5

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 and receivable for units subscribed) and financial liabilities (including payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2017, 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 $295,100 (2016 - $275,911).

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

CHOU EUROPE FUND

(unaudited)

March 15, 2018

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, 2017 was $10.05 compared to $9.70 at December 31, 2016, an increase of 3.6%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars increased 17.3%. In U.S. dollars, a Series A unit of Chou Europe Fund was up 10.6% while the MSCI AC Europe Total Return Index returned 26.0%.

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

December 31, 2017 (Series A)	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Chou Europe ($CAN)	3.6%	-5.0%	4.1%	1.0%
MSCI AC Europe TR ($CAN)	17.3%	10.1%	12.6%	4.0%
Chou Europe ($US)[2]	10.6%	-7.5%	-0.9%	-1.5%
MSCI AC Europe TR ($US)	26.0%	7.4%	7.5%	1.6%

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 2017 Results

Positive contributors to the Fund's performance in 2017 include equity holdings of Ryanair Holdings, Intralot, Abbey PLC and Eurobank Ergasias S.A. The Euro appreciated against the Canadian currency during the year, which also contributed to the positive performance of the Fund.

New additions to the Fund in the first half of 2017 include equity holdings of Teva Pharmaceutical and Endo International. These holdings were sold in the second half of 2017.

The Fund exited equity positions in Trastor Real Estate Investment Co., GlaxoSmithKline and AstraZeneca PLC.

[2] 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.

The Pharmaceutical Industry

We continue to believe that the pharmaceutical industry is selling at an undervalued price. In the semi-annual report, we detailed why we thought it was cheap. We wrote the following:

> "***A Historical Perspective***
> *What the pharmaceutical industry has been going through lately reminds me of what happened in the U.S. in 1994. A year earlier, then-president Bill Clinton appointed his wife, Hillary, to head a committee to prepare legislation for overhauling the U.S. health-care system, sending ripples of fear among investors of pharmaceutical stocks. It appeared as if drug prices would be set by the government on the basis of what it would cost to manufacture the product rather than being set by the market. Almost all pharmaceuticals stocks dived for the next of couple of years to unreasonable bargain levels*."

Investors were particularly nervous between Clinton's victory in November 1992 and throughout Clinton's health-care reform proposal from 1993 to 1994 (see Figure 1).

> "*The health-care reform package was eventually defeated in August 1994, sending an air of relief to the pharmaceutical stocks. They returned to their more fairly valued levels set from 1994 to 1998 (see Figure 2). The Republican revolution led by Newt Gingrich gave Republicans control of the Senate and House of Representatives, putting the final nail in the coffin for a health-care overhaul under the Clinton administration.*
>
> *Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what politicians can do to manage drug prices.*
>
> *Below are the graphs that compare the prices of three pharmaceutical stock prices both before and after August 1994.*

FIGURE 1.

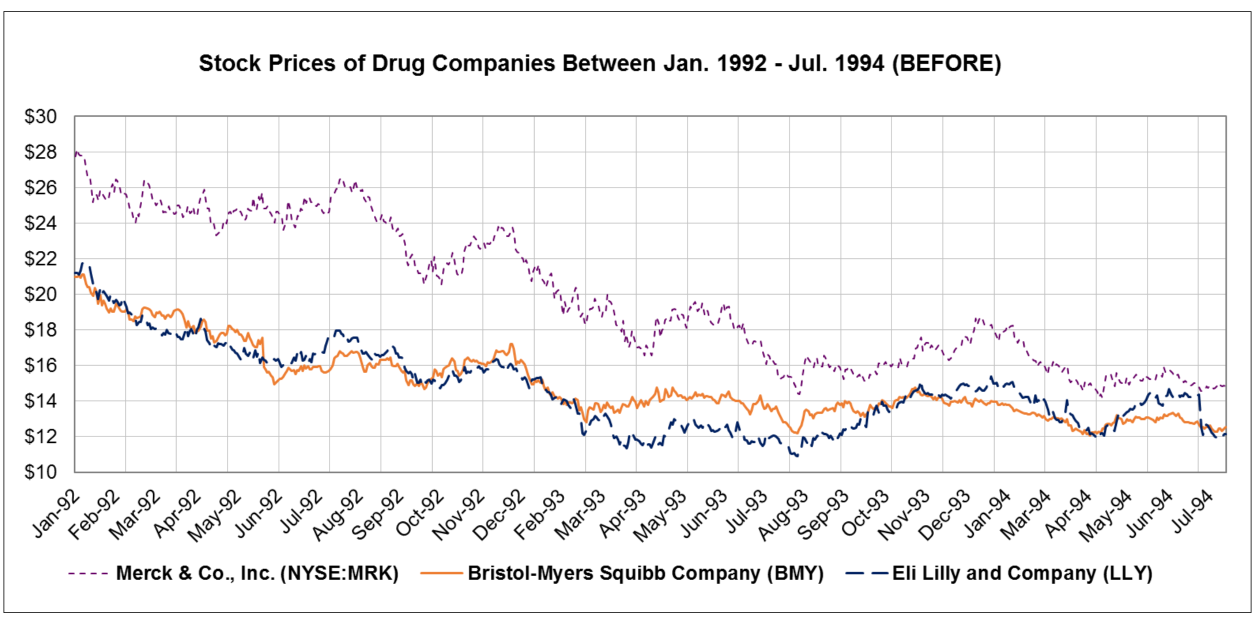
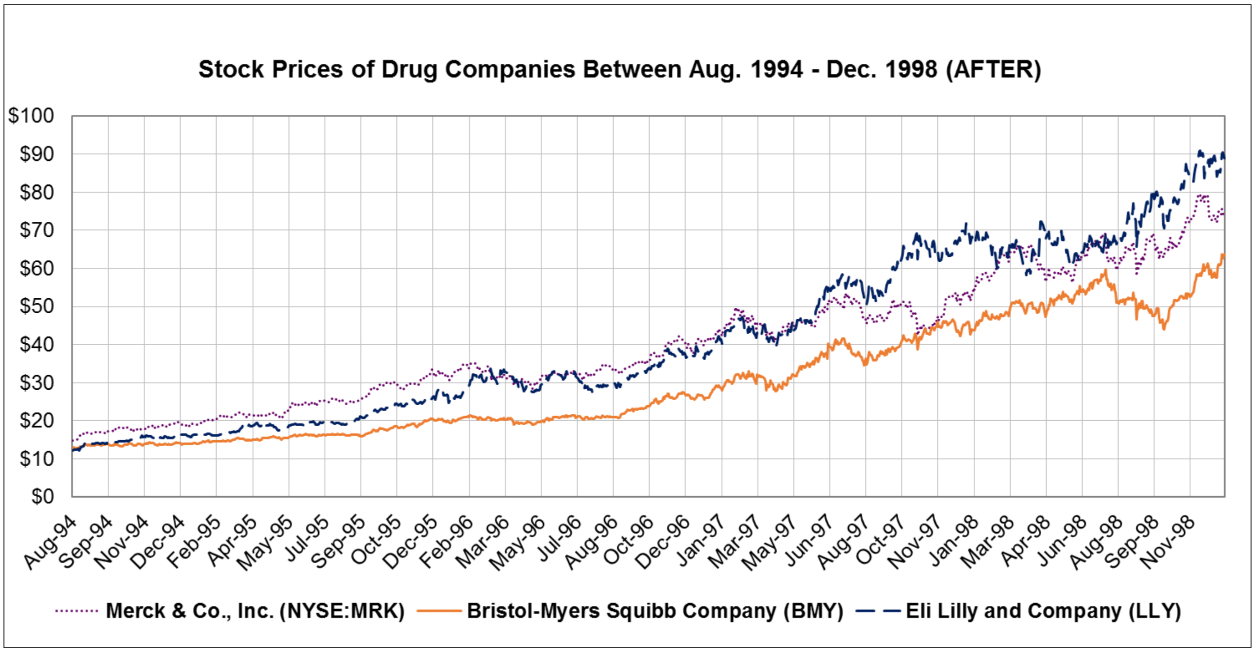


FIGURE 2.



In conclusion, we believe pharmaceutical stocks as a group are selling at attractive valuations, in comparison to the free cash flow and earnings they generate. The recent price drops may present one or more attractive long-term investment opportunities for us."

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 cash position was approximately 10% of net assets as at December 31, 2017. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, 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, 2017.

CREDIT DEFAULT SWAPS: None existed at December 31, 2017.

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 2017 IRC Annual Report is available on our website www.choufunds.com.

RISK RATING: As of August 25, 2017, the risk rating of the Fund was changed from "Medium to High" to "Medium". The Manager used the investment risk classification methodology under NI 81-102 Investment Funds, which came into force effective Sept. 1, 2017, to determine the risk rating of each Fund. These risk re-classifications are not as a result of changes to the investment objectives, strategies or portfolio management of the Fund.

CHANGE OF AUDITOR: On September 27, 2017, the Chou Funds' Independent Review Committee has approved a change of the Funds' auditor from KPMG LLP to Grant Thornton LLP, effective as of December 15, 2017. This change was made by Chou Associates Management Inc. solely for operational purposes and not as a result of any disagreements with the former auditor.

As of March 15, 2018, the NAVPU of a Series A unit of the Fund was $10.49 and the cash position was approximately 8.5% of net assets. The Fund is up 4.4% from the beginning of the year. In U.S. dollars, it is up 0.5%.

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

Francis Chou
Fund Manager

CHOU EUROPE FUND

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	$ 6,775,082	$ 11,230,159
Cash and cash equivalents	777,391	2,458,245
Receivable for redeemable units subscribed	10,000	–
Dividends receivable	22,378	21,445
Total assets	7,584,851	13,709,849
Liabilities		
Current liabilities:		
Accrued expenses	22,442	21,192
Payable for units redeemed	4,096	–
Total liabilities	26,538	21,192
Net assets attributable to unitholders of redeemable units	$ 7,558,313	$ 13,688,657
Net assets attributable to unitholders of redeemable units:		
Series A	$ 6,694,564	$ 12,164,662
Series F	863,749	1,523,995
	$ 7,558,313	$ 13,688,657
Number of redeemable units outstanding (note 4):		
Series A	666,094	1,253,703
Series F	83,511	153,653
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	$ 10.05	$ 9.70
Series F	10.34	9.92
U.S. dollars:		
Series A	8.00	7.22
Series F	8.23	7.39

See accompanying notes to financial statements.

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

Francis Chou

CHOU EUROPE FUND

Statements of Comprehensive Income (Loss)

Years ended December 31, 2017 and 2016

	2017	2016
Income:		
Interest for distribution purposes and other	$ -	$ 6,960
Dividends	76,883	236,560
Securities lending income (note 7)	344	231
Derivative loss	(1,082)	(1,279,723)
Foreign currency (loss) gain on cash and other net assets	(57,991)	56,634
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	4,417,480	(1,152,370)
Change in unrealized depreciation on fair value of financial assets designated at fair value through profit or loss	(3,715,234)	(2,240,000)
Change in unrealized appreciation on held-for-trading investments	-	753,750
	720,400	(3,617,958)
Expenses:		
Management fees (note 5)	206,011	262,648
Custodian fees	14,600	15,941
Audit	5,538	11,452
Filing fees	2,641	3,853
FundSERV fees	3,581	1,052
Legal fees	546	–
Transaction costs (note 6)	17,677	1,842
Foreign withholding taxes	10,059	20,440
Other	2,832	(708)
	263,485	316,520
Increase (decrease) in net assets attributable to unitholders of redeemable units	$ 456,915	$ (3,934,478)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	$ 433,156	$ (3,237,697)
Series F	23,759	(696,781)
	$ 456,915	$ (3,934,478)
Weighted average number of redeemable units outstanding for the year per series:		
Series A	1,142,852	1,363,219
Series F	88,858	253,894
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	$ 0.37	$ (2.37)
Series F	0.26	(2.75)

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, 2017 and 2016

	2017	2016
Series A		
Net assets attributable to unitholders of redeemable units, beginning of year	$ 12,164,662	$ 17,973,621
Increase (decrease) in net assets attributable to unitholders of redeemable units	433,156	(3,237,697)
Proceeds from issue of redeemable units	401,580	476,339
Payments on redemption of redeemable units	(6,304,834)	(3,047,601)
Net assets attributable to unitholders of redeemable units, end of year	6,694,564	12,164,662
Series F		
Net assets attributable to unitholders of redeemable units, beginning of year	1,523,995	3,826,947
Increase (decrease) in net assets attributable to unitholders of redeemable units	23,759	(696,781)
Proceeds from issue of redeemable units	243,288	276,492
Payments on redemption of redeemable units	(927,293)	(1,882,663)
Net assets attributable to unitholders of redeemable units, end of year	863,749	1,523,995
Total net assets attributable to unitholders of redeemable units, end of year	$ 7,558,313	$ 13,688,657

See accompanying notes to financial statements.

CHOU EUROPE FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets attributable to unitholders of redeemable units	$ 456,915	$ (3,934,478)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	57,991	(56,634)
Net realized (gain) loss on financial assets designated at fair value through profit or loss	(4,417,480)	1,152,370
Change in unrealized depreciation on investments and derivatives	3,715,234	1,486,250
Change in non-cash operating working capital:		
(Increase) decrease in dividends receivable	(933)	82,563
Increase (decrease) in accrued expenses	1,250	(11,113)
Purchase of investments	(2,325,969)	(909,527)
Proceeds from sales of investments	7,483,292	1,635,758
Net cash generated from (used in) operating activities	4,970,300	(554,811)
Cash flows from financing activities:		
Proceeds from redeemable units issued	634,868	753,674
Amount paid on redemption of redeemable units	(7,228,031)	(4,981,387)
Net cash used in financing activities	(6,593,163)	(4,227,713)
Foreign currency (loss) gain on cash and other net assets	(57,991)	56,634
Decrease in cash and cash equivalents	(1,680,854)	(4,725,890)
Cash and cash equivalents, beginning of year	2,458,245	7,184,135
Cash and cash equivalents, end of year	$ 777,391	$ 2,458,245
Supplemental information:		
Interest received, net of withholding tax	$ -	$ 6,960
Dividends received, net of withholding tax	65,891	319,103
Security lending income received	344	232

See accompanying notes to financial statements.

CHOU EUROPE FUND

Schedule of Investments

December 31, 2017

	Number of securities	Cost	Fair value
Equities*			
Abbey Public Limited Company	29,371	$ 211,019	$ 642,314
Bank of Ireland Group PLC	113,333	1,112,510	1,212,746
Endo International PLC	80,000	1,254,127	779,340
Eurobank Ergasias SA	850,000	3,265,557	1,089,679
Intralot A.E.	517,575	1,197,068	883,651
OTCPharm PJSC	32,500	15,335	129,857
Ryanair Holdings PLC, ADR	4,575	132,084	599,173
Sanofi, ADR	20,000	884,092	1,081,020
Teva Pharmaceutical Industries Limited, ADR	15,000	666,215	357,302
		8,738,007	6,775,082
Total long		8,738,007	6,775,082
Total investments		8,738,007	6,775,082
Transaction costs		(13,924)	-
Portfolio total		$ 8,724,083	$ 6,775,082

*Common shares unless indicated otherwise

See accompanying notes to financial statements.

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 89.64% (2016 - 82.04%) of the Fund's net assets held at December 31, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2017, the net assets of the Fund would have increased or decreased by approximately $338,750 or 4.48% (2016 - $561,508 or 4.10%) 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, 2017 and 2016 are as follows:

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

Financial risk management (continued):

2016	Foreign currency forward contract	Financial instruments	Percentage of net asset value
Sterling pound	–	£ 5,594,998	40.9
Euro currency	–	€ 4,465,755	32.6
United States dollar	–	$ 3,239,326	23.7

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 and receivable for units subscribed) and financial liabilities (including payable for units redeemed and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2017, 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 $73,713 (2016 - $133,001).

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

CHOU BOND FUND

(unaudited)

March 15, 2018

Dear Unitholders of Chou Bond Fund,

After the distribution of $0.44, the net asset value per unit ("NAVPU") of a Series A unit of Chou Bond Fund at December 31, 2017 was $8.21 compared to $8.79 at December 31, 2016, a decrease of 1.6%; during the same period, Barclays U.S. Corporate High Yield Index ($CAN) returned 0.1%. In U.S. dollars, a Series A unit of Chou Bond Fund was up 5.1% while Barclays U.S. Corporate High Yield Index returned 7.5%.

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

December 31, 2017 (Series A)	1 Year	3 Years	5 Years	10 Years
Chou Bond ($CAN)	-1.6%	1.2%	7.1%	4.3%
Barclays' U.S. High Yield ($CAN)	0.1%	9.1%	10.8%	10.6%
Chou Bond ($US) [1]	5.1%	-1.5%	2.2%	1.9%
Barclays' U.S High Yield ($US)	7.5%	6.4%	5.8%	8.0%

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

Factors Influencing the 2017 Results

Major positive contributors of the Fund in 2017 were the equities of Resolute Forest Products, as well as Valeant Pharmaceuticals 6.125% bond, due April 2025.

The major decliners in the Fund's performance include the debt securities of UkrLandFarming PLC 10.875%, due March 2018, Avangardco Investments Public Limited 10.00%, due October 2018, and EXCO Resources 1.75 lien term loans, due October 2020.

New additions to the Fund during the year were preferred shares of Sears Roebuck Acceptance. The Fund also increased holdings in EXCO Resources 1.75 lien term loans, due October 2020.

The Fund reduced holdings in Resolute Forest Products equities, the bonds of Avangardco Investments Public Limited 10.00%, due October 2018, and Atlanticus Holdings 5.875%, due November 2035. The Fund also exited debt holdings in EXCO Resources 8.5% bonds and Resolute Forest Products 5.875%, due May 2023.

[1] 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

Fund losses came mainly from positions in debt securities of two Ukrainian companies, Avangardco Investments and UkrLandFarming Company. Avangardco fell from 29.0 cents on a dollar on December 31, 2016 to 22.5 cents on December 31, 2017. Avangardco Investments is one of the leading agro-industrial companies in Ukraine, focusing on the production of shell eggs and egg products. According to the Pro-Consulting Report, it has a market share of approximately 57% of all industrially produced shell eggs and 91% of all dry egg products produced in Ukraine in 2013.

UkrLandFarming PLC fell from 31.7 cents on a dollar on December 31, 2016 to 15.3 cents on December 31, 2017. UkrLandFarming PLC operates as an integrated agricultural producer and distributor. The company engages in crops farming, eggs and egg products production, sugar production, as well as cattle and meat production and distribution.

We believe that the bonds of those companies are down from their purchase price in large part because that region of the world is 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 that they could subject the Fund to a permanent loss of capital. Strong balance sheet and decent financial operations count but we believe that when investing in companies located in a region embroiled in a civil war fueled by Putin, geopolitics can trump solid financials.

In our 2016 Annual Report, we indicated that it was too early to tell whether our foray into Ukraine was an unforced error. We are now of the view that it was. Further, we believe that the Fund may suffer some permanent loss of capital.

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.

Other Matters

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2017.

CREDIT DEFAULT SWAPS: None existed at December 31, 2017.

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 2017 IRC Annual Report is available on our website www.choufunds.com.

RISK RATING: As of August 25, 2017, the risk rating of the Fund was changed from "Medium to High" to "Medium". The Manager used the investment risk classification methodology under NI 81-102 Investment Funds, which came into force effective Sept. 1, 2017, to determine the risk rating of each Fund. These risk re-classifications are not as a result of changes to the investment objectives, strategies or portfolio management of the Fund.

CHANGE OF AUDITOR: On September 27, 2017, the Chou Funds' Independent Review Committee has approved a change of the Funds' auditor from KPMG LLP to Grant Thornton LLP, effective as of December 15, 2017. This change was made by Chou Associates Management Inc. solely for operational purposes and not as a result of any disagreements with the former auditor.

As of March 15, 2018, the NAVPU of a Series A unit of the Fund was $7.86 and the cash position was approximately 1.1% of net assets. The Fund is down 4.3% from the beginning of the year. In U.S. dollars, it is down 7.8%.

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

Francis Chou
Fund Manager

CHOU BOND FUND

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	$ 26,655,165	$ 36,688,801
Held-for-trading investments	-	10,765
Cash and cash equivalents	610,696	7,621,140
Due from broker	326,014	661,041
Interest receivable	263,692	710,104
Dividends receivable	13,556	-
Total assets	27,869,123	45,691,851
Liabilities		
Current liabilities:		
Accrued expenses	96,156	78,614
Payable for units redeemed	14,173	99,851
Due to broker	-	2,920,264
Total liabilities	110,329	3,098,729
Net assets attributable to unitholders of redeemable units	$ 27,758,794	$ 42,593,122
Net assets attributable to unitholders of redeemable units:		
Series A	$ 25,485,449	$ 38,981,802
Series F	2,273,345	3,611,320
	$ 27,758,794	$ 42,593,122
Number of redeemable units outstanding (note 4):		
Series A	3,104,049	4,432,708
Series F	270,473	403,615
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	$ 8.21	$ 8.79
Series F	8.41	8.94
U.S. dollars:		
Series A	6.53	6.55
Series F	6.69	6.66

See accompanying notes to financial statements.

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

Francis Chou

CHOU BOND FUND

Statements of Comprehensive Income (Loss)

Years ended December 31, 2017 and 2016

	2017	2016
Income:		
Interest for distribution purposes and other	$ 1,942,751	$ 3,728,579
Dividends	42,690	-
Securities lending income (note 7)	14,342	7
Derivative loss	-	(2,633,858)
Foreign currency (loss) gain on cash and other net assets	(246,390)	471,115
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	2,029,697	(1,682,986)
Net realized gain on held-for-trading investments	47,526	-
Change in unrealized (depreciation) appreciation on financial assets designated at fair value through profit or loss	(4,155,418)	2,765,154
Change in unrealized (depreciation) appreciation on held-for-trading investments	(10,765)	1,595,265
	(335,567)	4,243,276
Expenses:		
Management fees (note 5)	491,143	501,739
Custodian fees	54,750	54,940
Audit	15,591	19,585
Filing fees	7,861	8,984
FundSERV fees	6,181	3,111
Legal fees	1,676	–
Transaction costs (note 6)	19,971	17,853
Foreign withholding taxes	2,392	–
Other	8,961	7,666
	608,526	613,878
(Decrease) increase in net assets attributable to unitholders of redeemable units	$ (944,093)	$ 3,629,398
(Decrease) increase in net assets attributable to unitholders of redeemable units per series:		
Series A	$ (859,462)	$ 3,273,001
Series F	(84,631)	356,397
	$ (944,093)	$ 3,629,398
Weighted average number of redeemable units outstanding for the year per series:		
Series A	4,111,934	4,365,107
Series F	333,633	369,917
(Decrease) increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	$ (0.21)	$ 0.75
Series F	(0.25)	0.96

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, 2017 and 2016

	2017	2016
Series A		
Net assets attributable to unitholders of redeemable units, beginning of year	$ 38,981,802	$ 39,630,967
(Decrease) increase in net assets attributable to unitholders of redeemable units	(859,462)	3,273,001
Proceeds from issue of redeemable units	498,694	1,832,128
Payments on redemption of redeemable units	(13,119,730)	(5,710,443)
Distributions of income to unitholders:		
Investment income	(1,304,956)	(3,195,318)
Reinvested distributions	1,289,101	3,151,467
Net assets attributable to unitholders of redeemable units, end of year	25,485,449	38,981,802
Series F		
Net assets attributable to unitholders of redeemable units, beginning of year	3,611,320	3,173,592
(Decrease) increase in net assets attributable to unitholders of redeemable units	(84,631)	356,397
Proceeds from issue of redeemable units	232,841	733,052
Payments on redemption of redeemable units	(1,479,840)	(633,961)
Distributions of income to unitholders:		
Investment income	(104,806)	(276,476)
Reinvested distributions	98,461	258,716
Net assets attributable to unitholders of redeemable units, end of year	2,273,345	3,611,320
Total net assets attributable to unitholders of redeemable units, end of year	$ 27,758,794	$ 42,593,122

See accompanying notes to financial statements.

CHOU BOND FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
(Decrease) increase in net assets attributable to unitholders of redeemable units	$ (944,093)	$ 3,629,398
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	246,390	(471,115)
Net realized (gain) loss on financial assets designated at fair value through profit or loss	(2,077,223)	1,682,986
Change in unrealized depreciation (appreciation) on investments and derivatives	4,166,183	(4,360,419)
Change in non-cash operating working capital:		
Decrease in interest receivable	446,412	694,206
Increase in dividends receivable	(13,556)	-
Increase in accrued expenses	17,542	21,289
Purchase of investments	(15,032,246)	(13,230,157)
Proceeds from sales of investments	20,402,450	19,088,660
Net cash generated from operating activities	7,211,859	7,054,848
Cash flows from financing activities:		
Distributions paid to unitholders	(22,200)	(123,229)
Proceeds from redeemable units issued	731,535	2,565,180
Amount paid on redemption of redeemable units	(14,685,248)	(6,308,711)
Net cash used in financing activities	(13,975,913)	(3,866,760)
Foreign currency gain (loss) on cash and other net assets	(246,390)	471,115
Decrease (increase) in cash and cash equivalents	(7,010,444)	3,659,203
Cash and cash equivalents, beginning of year	7,621,140	3,961,937
Cash and cash equivalents, end of year	$ 610,696	$ 7,621,140
Supplemental information:		
Interest received, net of withholding tax	$ 2,389,163	$ 4,422,785
Dividends received, net of withholding tax	26,742	(47,644)
Security lending income received	14,342	7

See accompanying notes to financial statements.

CHOU BOND FUND

Schedule of Investments

December 31, 2017

	Number of securities	Cost	Fair value
Equities*			
Catalyst Paper Corporation	2,389,016	$ 407,129	$ 407,129
Resolute Forest Products Inc.	24,872	224,242	345,468
Sandridge Energy Inc.	135,903	3,678,274	3,599,390
Sears Roebuck Acceptance Corporation	29,000	323,791	317,141
Wow Unlimited Media Inc.	1,165,742	2,675,094	2,057,535
		7,308,530	6,726,663
Bonds			
Ascent Capital Group Inc., 4.000%, July 15, 2020 Convertible Bonds	2,683,000	2,776,137	2,679,054
Atlanticus Holdings Corporation, 5.875%, November 30, 2035, Convertible Bonds	5,300,000	2,346,100	3,356,033
Avangardco Investments Public Limited, 10.000%, October 29, 2018	2,311,375	2,369,281	652,262
Catalyst Paper Corporation, term loans, October 31, 2021	1,369,752	1,390,605	1,273,869
Dex Media West Inc., term loans, July 29, 2021	467,147	619,414	598,949
Exco Resources Inc., term loans, October 26, 2020	4,153,333	4,080,429	3,197,703
Fortress Paper Limited, 7.000%, December 31, 2019, Convertible Bonds, Callable	4,659,000	2,621,102	4,123,215
Taiga Building Products Limited, 7.000%, November 17, 2022, Callable	467,000	482,761	489,182
Ukrlandfarming PLC, 10.875%, March 26, 2018	6,513,021	5,984,449	1,248,497
Valeant Pharmaceuticals International Inc., 6.125%, April 15, 2025, Callable	2,000,000	1,971,190	2,309,738
		24,641,468	19,928,502
Total long		31,949,998	26,655,165
Total investments		31,949,998	26,655,165
Transaction costs		(4,061)	-
Portfolio total		$ 31,945,937	$ 26,655,165

* Common shares unless indicated otherwise
** Shares received from debt restructuring

See accompanying notes to financial statements.

CHOU BOND FUND

Discussion of Financial Risk Management

Years ended December 31, 2017 and 2016

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 traces. 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, 2017, the Fund invested approximately 19.84% (2016 – 15.49%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. As at December 31, 2017, the Fund invested approximately 49.11% (2016 - 55.61%) 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:

	2017	2016
Less than 1 year	$ 1,900,759	$ 3,408,080
1 - 3 years	9,999,972	8,141,140
3 - 5 years	1,574,621	10,173,785
Greater than 5 years	5,665,771	8,560,065

Financial risk management (continued):

As at December 31, 2017, 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 $176,833 (2016 - $281,861).

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 24.23% (2016 - 10.31%) of the Fund's net assets held at December 31, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2017, the net assets of the Fund would have increased or decreased by approximately $336,300 or 1.21% (2016 - $219,524 or 0.52%) 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, 2017 and 2016 are as follows:

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

2016	Foreign currency forward contract	Financial instruments	Percentage of net asset value
United States dollar	$ –	$ 35,317,018	82.9%

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, due from broker and receivable for units subscribed) and financial liabilities (including payable for units redeemed, due to broker and distributions payable) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2017, 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 $199,820 (2016 - $353,170).

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

CHOU RRSP FUND

(unaudited)

March 15, 2018

Dear Unitholders of Chou RRSP Fund,

After the distribution of $1.00, the net asset value per unit ("NAVPU") of a Series A unit of Chou RRSP Fund at December 31, 2017 was $32.55 compared to $27.48 at December 31, 2016, an increase of 22.1%; during the same period, the S&P/TSX Total Return Index increased 9.1% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was up 30.4% while the S&P/TSX Total Return Index returned 17.1%.

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

December 31, 2017 (Series A)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**	**20 Years**
Chou RRSP ($CAN)	22.1%	0.9%	7.3%	5.0%	5.9%	8.1%
S&P/TSX ($CAN)	9.1%	6.6%	8.6%	4.6%	9.0%	7.0%
Chou RRSP ($US)[1]	30.4%	-1.8%	2.4%	2.5%	7.5%	8.8%
S&P/TSX ($US)	17.1%	3.9%	3.7%	2.2%	10.7%	7.7%

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 2017 Results

The equity holdings of Resolute Forest Products, BlackBerry, Canfor Pulp Products, Interfor Corp. and Valeant Pharmaceuticals, as well as Bank of America warrants were the major positive contributors to the Fund's performance in 2017.

The largest decliners in the same period were equities of Reitmans, Dundee Corp., Torstar Corp., and EXCO Resources 1.75 lien term loans.

During the year of 2017, the Fund reduced its holdings in Valeant Pharmaceuticals, Canfor Pulp Products, Interfor Corp. and Bank of America warrants. The Fund also sold equity positions in Sears Canada and Overstock, as well as the Fuel Industries term loans.

Unsecured subordinated notes of Taiga Building Products 14%, due September 2020 were exchanged for an equivalent principal amount of the new 7% senior notes of Taiga, due November 2022, plus some common shares.

[1] 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.

Bank of America TARP Warrants

Overall, the investments in the Bank of America TARP warrants performed well in 2017, as reflected by the price increases of the position shown in the following table:

Security	Average Cost Base (ACB)*	Price as of Dec. 31, 2016	Price as of Dec. 31, 2017	% Increase From ACB
Bank of America Warrants (Jan. 16, 2019)	$3.43	$9.95	$17.56	412%

** As of December 31, 2017*

Note: Prices are in $US.

The maturity date for the TARP warrants is now less than a year away. As the time element grows shorter, we believe the warrant is likely to become more speculative and therefore we expect to further reduce or eliminate the positions in the various TARP warrants. If we believe that the banks in question may still be undervalued, then we will be more likely to invest in the banks' common stock.

However, it is important to note that any future decision to sell additional warrants or buy the common stock will be based on our view of issuers and the markets at such time.

EXCO Resources

As of December 31, 2017, the Fund owned about US$7.7 million worth of EXCO Resources (EXCO)'s 1.75 lien term loans (converted from the second-lien term loans held in Feb. 2017), with US$12.6 million in par value. This is the largest position in the portfolio, comprising more than 10% of the assets of the Fund (at market value).

We liked this security because it met our criteria for investing in the oil and gas sector. The criteria we considered in analyzing this type of investment include that the security should be:

1. A very senior term loan or note;
2. Issued by a company with a significantly limited ability to add senior or pari-passu debt to its capital structure; and
3. Of a type that should the company restructure or go into bankruptcy, the recovery value of the bond is likely to be greater than the current price of the bond.

In addition to the security being very senior in the capital structure, we also hold the view that management seems to be making good decisions with respect to the allocation of capital in a tough environment.

On January 15, 2018, EXCO filed voluntary petitions for a court-supervised reorganization under Chapter 11 of the U.S. Bankruptcy Code in order to facilitate a restructuring of its balance sheet. EXCO Resources is saddled with very expensive transportation and other contracts. During a bankruptcy proceeding, those contracts that have a present value of, for example $200 million, could potentially be renegotiated to as low as $20 million. The longer that EXCO does not restructure through a bankruptcy, the more value is potentially eroded from the 1.75 lien term loans. As of now, we think the value of the EXCO 1.75 lien term loans should be about 80 cents to 100 cents on a dollar. On December 31, 2017, it was priced at 61.25 cents on a dollar.

Valeant and the Pharmaceutical Industry

We continue to believe that the pharmaceutical industry is selling at an undervalued price. In the semi-annual report, we detailed why we thought it was cheap. We wrote the following:

> "*As if Valeant has not given enough pain and anguish to our unitholders, we believe pharmaceutical stocks as a group are selling at attractive valuations. They generate their earnings in cash and most of them are selling at less than 10 times cash earnings. Some of them are down more than 50% from their highs, which is what caught our attention initially. It may look like we are adding more emotional fuel to the fire from our experience with Valeant but we look at mispriced stocks on a case-by-case basis. Given our current favorable view of the pharmaceutical industry generally, as next discussed in greater detail, we expect to invest in stocks of more than two or more pharmaceutical companies (that is, to utilize a so-called "basket approach"), in order to reduce the potential adverse effect on fund returns that could result from Food and Drug Administration (FDA) approval and patent expiration issues faced by a single company.*
>
> ***A Historical Perspective***
>
> *What the pharmaceutical industry has been going through lately reminds me of what happened in the U.S. in 1994. A year earlier, then-president Bill Clinton appointed his wife, Hillary, to head a committee to prepare legislation for overhauling the U.S. health-care system, sending ripples of fear among investors of pharmaceutical stocks. It appeared as if drug prices would be set by the government on the basis of what it would cost to manufacture the product rather than being set by the market. Almost all pharmaceuticals stocks dived for the next of couple of years to unreasonable bargain levels*."

Investors were particularly nervous between Clinton's victory in November 1992 and throughout Clinton's health-care reform proposal from 1993 to 1994 (see Figure 1).

> "*The health-care reform package was eventually defeated in August 1994, sending an air of relief to the pharmaceutical stocks. They returned to their more fairly valued levels set from 1994 to 1998 (see Figure 2). The Republican revolution led by Newt Gingrich gave Republicans control of the Senate and House of Representatives, putting the final nail in the coffin for a health-care overhaul under the Clinton administration.*
>
> *Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what politicians can do to manage drug prices.*
>
> *Below are the graphs that compare the prices of three pharmaceutical stock prices both before and after August 1994.*

FIGURE 1.

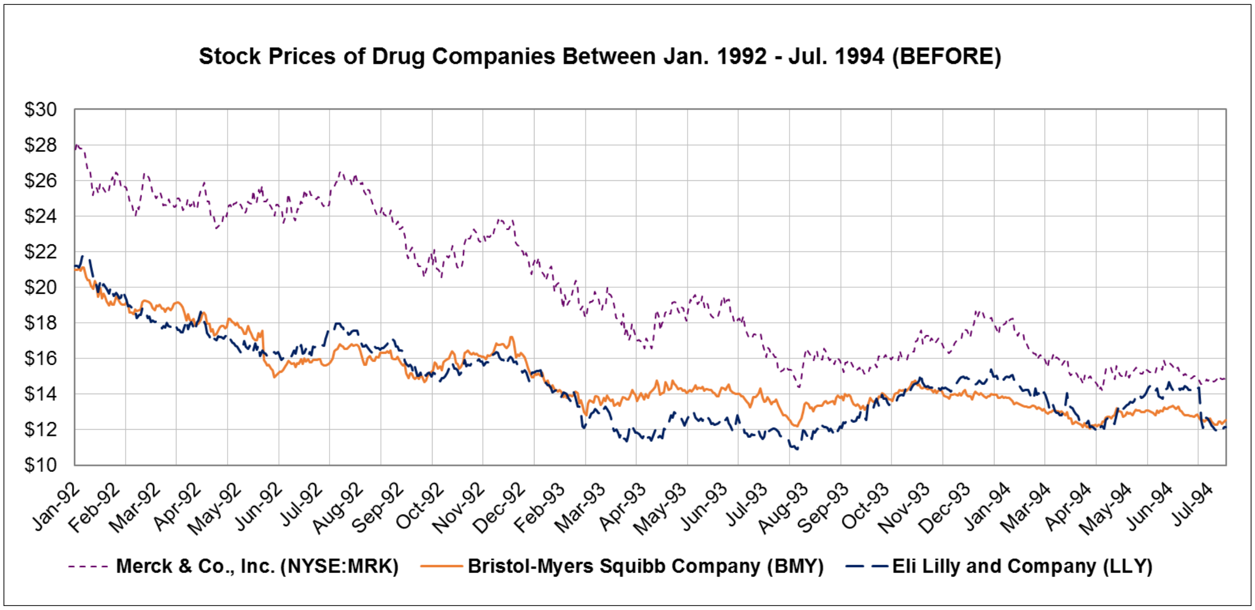
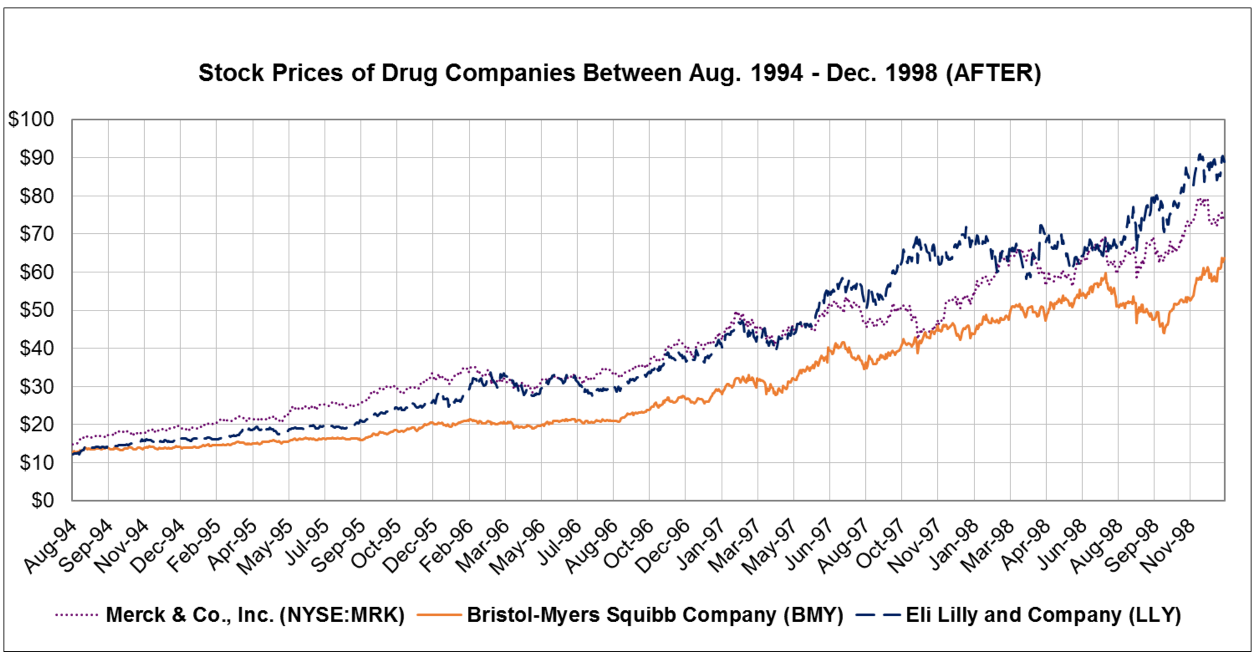


FIGURE 2.



In conclusion, we believe pharmaceutical stocks as a group are selling at attractive valuations, in comparison to the free cash flow and earnings they generate. The recent price drops may present one or more attractive long-term investment opportunities for us."

However, in the beginning of the fourth quarter, due to the amount of U.S. bank warrants and stocks sold, we had realized capital gains of close to $2.71 per unit. If we were to pass down the capital gains to our unitholders, it would leave a large tax burden to them during income tax season. This tax burden would be easier to bear for our unitholders if we had outstanding returns for the last few years. However, the reality is that we did not have the best of years. In order to mitigate the problem or eliminate it, we sold some Valeant shares in which we had unrealized losses, hoping to buy it back a month later (31 days) at close to the same price we sold it.

In the first quarter of 2018, we have bought back some of our holdings in Valeant Pharmaceuticals when they came down in price.

BlackBerry

We bought BlackBerry more as an asset play rather than an operating company. We thought the patents and trademarks alone were worth north of $10. Even if the operation did not turn around, our purchase price of $6 would be safe and would provide an adequate margin of safety. In a turnaround situation, it is important to get the right CEO and BlackBerry did an outstanding job of luring John Chen to implement the change. Since becoming CEO, Mr. Chen has led BlackBerry through an historic turnaround. The iconic company shed its hardware manufacturing business, returned to financial stability, and made strategic investments in cybersecurity and embedded software. These investments materialized and today are delivering most of the company’s revenue and growth.

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.

Also, the Fund’s cash position was approximately 18% of net assets as at December 31, 2017. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, 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, 2017.

CREDIT DEFAULT SWAPS: None existed at December 31, 2017.

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 2017 IRC Annual Report is available on our website www.choufunds.com.

CHANGE OF AUDITOR: On September 27, 2017, the Chou Funds' Independent Review Committee has approved a change of the Funds' auditor from KPMG LLP to Grant Thornton LLP, effective as of December 15, 2017. This change was made by Chou Associates Management Inc. solely for operational purposes and not as a result of any disagreements with the former auditor.

As of March 15, 2018, the NAVPU of a Series A unit of the Fund was $31.62 and the cash position was approximately 13.6% of net assets. The Fund is down 2.9% from the beginning of the year. In U.S. dollars, it is down 6.4%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

CHOU RRSP FUND

Statements of Financial Position

December 31, 2017 and 2016

		2017		2016
Assets				
Current assets:				
Financial assets designated at fair value through profit or loss (note 8)	$	63,156,504	$	74,050,452
Held-for-trading investments (note 8)		3,299,372		11,179,453
Cash and cash equivalents		14,247,136		452,846
Receivable for redeemable units subscribed		-		26,000
Guarantee asset (note 5)		-		2,935,439
Due from broker		7,143		-
Interest receivable		26,252		504,799
Total assets		80,736,407		89,148,989
Liabilities				
Current liabilities:				
Accrued expenses		296,198		244,145
Payable for units redeemed		52,839		139,802
Due to broker		3,589		–
Total liabilities		352,626		383,947
Net assets attributable to unitholders of redeemable units	$	80,383,781	$	88,765,042
Net assets attributable to unitholders of redeemable units:				
Series A	$	73,104,943	$	82,832,921
Series F		7,278,838		5,932,121
	$	80,383,781	$	88,765,042
Number of redeemable units outstanding (note 4):				
Series A		2,245,919		3,013,777
Series F		222,317		214,149
Net assets attributable to unitholders of redeemable units per unit:				
Canadian dollars:				
Series A	$	32.55	$	27.48
Series F		32.74		27.70
U.S. dollars:				
Series A		25.90		20.47
Series F		26.05		20.63

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, 2017 and 2016

	2017	2016
Income:		
Interest for distribution purposes and other	$ 3,399,321	$ 3,613,470
Dividends	426,909	576,080
Securities lending income (note 7)	42,465	12,992
Derivative income	-	160
Foreign currency (loss) gain on cash and other net assets	(57,953)	353,773
Guarantee recovery (loss) income (note 5)	(2,935,439)	2,935,439
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	(11,750,098)	(2,626,324)
Net realized gain on held-for-trading investments	8,764,371	-
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	24,916,988	(12,091,639)
Change in unrealized (depreciation) appreciation on held-for-trading investments	(5,428,443)	4,451,969
	17,378,121	(2,773,810)
Expenses:		
Management fees (note 5)	1,332,207	1,457,647
Custodian fees	138,700	139,080
Audit	33,139	29,726
Filing fees	10,449	14,640
FundSERV fees	8,550	10,980
Legal fees	2,435	2,441
Transaction costs (note 6)	95,654	43,897
Foreign withholding taxes	471	–
Other	20,214	26,194
	1,641,819	1,724,605
Increase (decrease) in net assets attributable to unitholders of redeemable units	$ 15,736,302	$ (4,498,415)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	$ 14,326,276	$ (4,474,597)
Series F	1,410,026	(23,818)
	$ 15,736,302	$ (4,498,415)
Weighted average number of redeemable units outstanding for the year per series:		
Series A	2,626,163	3,180,682
Series F	224,471	185,390
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	$ 5.46	$ (1.41)
Series F	6.28	(0.13)

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, 2017 and 2016

	2017	2016
Series A		
Net assets attributable to unitholders of redeemable units, beginning of year	$ 82,832,921	$ 99,334,071
Increase (decrease) in net assets attributable to unitholders of redeemable units	14,326,276	(4,474,597)
Proceeds from issue of redeemable units	837,239	2,694,357
Payments on redemption of redeemable units	(24,855,484)	(14,680,248)
Distributions of income to unitholders:		
Investment income	(2,185,666)	(2,523,868)
Reinvested distributions	2,149,657	2,483,206
Net assets attributable to unitholders of redeemable units, end of year	73,104,943	82,832,921
Series F		
Net assets attributable to unitholders of redeemable units, beginning of year	5,932,121	4,750,230
Increase (decrease) in net assets attributable to unitholders of redeemable units	1,410,026	(23,818)
Proceeds from issue of redeemable units	1,320,836	2,295,323
Payments on redemption of redeemable units	(1,376,408)	(1,085,912)
Distributions of income to unitholders:		
Investment income	(269,184)	(172,812)
Reinvested distributions	261,447	169,110
Net assets attributable to unitholders of redeemable units, end of year	7,278,838	5,932,121
Total net assets attributable to unitholders of redeemable units, end of year	$ 80,383,781	$ 88,765,042

See accompanying notes to financial statements.

CHOU RRSP FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Increase (decrease) in net assets attributable to unitholders of redeemable units	$	15,736,302	$	(4,498,415)
Adjustments for:				
Foreign currency loss (gain) on cash and other net assets		57,953		(353,773)
Net realized loss on financial assets designated at fair value through profit or loss		2,985,727		2,626,324
Change in unrealized (appreciation) depreciation on investments and derivatives		(16,553,106)		7,639,400
Change in non-cash operating working capital:				
(Decrease) increase in interest receivable		478,547		(206,003)
Increase in accrued expenses		52,053		44,453
Purchase of investments		(18,213,410)		(30,085,828)
Proceeds from sales of investments		53,486,703		5,443,840
Guarantee asset		-		2,935,439
Net cash generated from (used in) operating activities		38,030,769		(22,325,441)
Cash flows from financing activities:				
Distributions paid to unitholders		(43,746)		(130,331)
Proceeds from redeemable units issued		2,184,075		4,998,910
Amount paid on redemption of redeemable units		(26,318,855)		(15,717,616)
Net cash used in financing activities		(24,178,526)		(10,849,037)
Foreign currency (loss) gain on cash and other net assets		(57,953)		353,773
Increase (decrease) in cash and cash equivalents		13,794,290		(32,820,705)
Cash and cash equivalents, beginning of year		452,846		33,273,551
Cash and cash equivalents, end of year	$	14,247,136	$	452,846
Supplemental information:				
Interest received, net of withholding tax	$	3,877,868	$	3,407,467
Dividends received, net of withholding tax		426,438		576,000
Security lending income received		42,465		12,992

See accompanying notes to financial statements.

CHOU RRSP FUND

Schedule of Investments

December 31, 2017

	Number of securities	Cost	Fair value
Equities*			
Blackberry Ltd.	529,040	$ 4,122,657	$ 7,427,722
Canfor Pulp Products Inc.	393,900	1,120,885	5,258,565
Danier Leather Inc.	679,200	6,453,777	–
Dundee Corporation, Class 'A'	300,000	3,060,351	759,000
Interfor Corporation	125,500	746,361	2,650,560
Overstock.com Inc., Class ‘B’	15,198	314,348	1,050,714
Reitmans (Canada) Limited	348,600	1,914,063	1,464,120
Reitmans (Canada) Limited, Class 'A'	690,800	3,758,099	2,942,808
Resolute Forest Products Inc.	1,224,188	13,844,859	17,003,788
Taiga Building Products Limited	129,000	181,890	181,890
Torstar Corporation, Class 'B'	1,063,716	23,213,677	1,818,954
TVA Group Inc.	783,128	11,323,079	3,163,837
TWC Enterprises Limited	201,944	1,077,639	2,425,348
Valeant Pharmaceuticals International Inc.	148,992	6,547,714	3,891,739
Wow Unlimited Media Inc.	93,680	1,930,473	165,345
		79,609,872	50,204,390
Bonds			
Exco Resources Inc., term loans, October 26, 2020	12,590,186	7,413,294	9,693,342
Taiga Building Products Ltd. 7.000%, November 17, 2022, Callable	3,111,000	3,215,996	3,258,772
		10,629,290	12,952,114
Total long		90,239,162	63,156,504
Held-for-trading			
Bank of America Corporation, warrants, Series A, January 16, 2019	149,476	533,151	3,299,372
Total held-for-trading		533,151	3,299,372
Total investments		90,772,313	66,455,876
Transaction costs		(89,568)	–
Portfolio total		$ 90,682,745	$ 66,455,876

* Common shares unless indicated otherwise
See accompanying notes to financial statements.

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, 2017, the Fund invested approximately 12.06% (2016 - 13.42%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. As at December 31, 2017, the Fund invested approximately 4.05% (2016 - 12.09%) of its net assets in non-rated debt instruments. These credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment.

(b) Interest rate risk:

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

Debt instruments by maturity date:

	2017	2016
Less than 1 year	$ -	$ 3,494,326
1 - 3 years	9,693,342	–
3 - 5 years	3,258,772	19,102,482
Greater than 5 years	-	–

As at December 31, 2017, 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 $102,599 (2016 - $191,025).

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

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 62.46% (2016 - 70.19%) of the Fund's net assets held at December 31, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2017, the net assets of the Fund would have increased or decreased by approximately $2,510,200 or 3.12% (2016 - $3,115,153 or 3.51%) 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, 2017 and 2016 are as follows:

2017	Financial instruments	Percentage of net asset value
United States dollar	$ 47,710,636	59.4%

2016	Financial instruments	Percentage of net asset value
United States dollar	$ 43,390,282	48.9%

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 and due to broker) that are denominated in foreign currencies do not expose the Fund to significant foreign currency risk.

As at December 31, 2017, 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 $477,106 (2016 - $433,903).

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

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:

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

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, 2018, 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) Recognition, initial measurement and classification:

Financial assets and financial liabilities are initially recorded at fair value. Financial instruments at fair value through profit or loss ("FVTPL") are recorded on the trade date with transaction costs recognized in profit or loss and are subsequently recorded at fair value. Financial assets classified as loans and receivables and financial liabilities classified as other financial liabilities are carried at amortized cost using the effective interest rate method, less impairment losses, if any.

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.

2. Significant accounting policies (continued):

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

Financial liabilities at FVTPL:

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

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents, receivable for units subscribed, due from broker, interest receivable, dividends receivable

Financial liabilities at amortized cost:

- Other financial liabilities: payable for units redeemed, distributions payable and due to broker

Financial instruments recorded at amortized cost are not discounted due to the short term nature of the assets and liabilities.

(b) Fair value measurement:

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

Bonds and debentures are valued at the mid-point of their last evaluated bid price and their last evaluated ask price received from recognized investment dealers.

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 Fund recognizes 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.

2. Significant accounting policies (continued):

(b) 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.

(c) Critical accounting estimates and judgments:

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

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

The 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.

2. Significant accounting policies (continued):

(c) 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 about whether or not the business of the Funds is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments - Recognition and Measurement. The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

(d) Cost of investments:

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs.

(e) 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.

(f) Transaction costs:

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

(g) Cash and cash equivalents:

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

2. Significant accounting policies (continued):

(h) Investment transactions and income recognition:

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.

(i) Foreign exchange:

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

(j) Derivative transactions:

The Manager may use options to 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.

(k) Multi-series funds:

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

2. Significant accounting policies (continued):

(l) Valuation of Fund units:

The net assets attributable to holders of redeemable units of each Fund are computed by dividing the net assets attributable to holders of a series of 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.

(m) Securities lending income:

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

(n) 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 32, Financial Instruments – Presentation ("IAS 32"), 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 classified as financial liabilities.

(o) Chou Associates Management Inc. Guarantee

The RRSP Fund recognizes a guarantee asset on its statement of financial position in relation to the loan losses expected on the Fuel Industries term loan investment and records a recovery of its provision for expected recovery on the statement of comprehensive income at the same time as the related change in fair value is recorded.

(p) Future accounting standards:

IFRS 9, Financial Instruments ("IFRS 9"):

On July 24, 2014, the IASB issued the complete IFRS 9. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

2. Significant accounting policies (continued):

The standard introduces additional changes relating to financial liabilities.

The Funds intend to adopt IFRS 9 in their financial statements for the annual period beginning on January 1, 2018. The most significant impact on adoption of IFRS 9 is that the fair value option can be applied to investments that are not determined to be held-for-trading. This application is consistent with current accounting standards. There are no expected changes in financial instrument valuation related to adopting IFRS 9.

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.

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.

3. Financial risk management (continued):

(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.

(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	
	2017	**2016**	**2017**	**2016**
Chou Associates Fund				
Redeemable units outstanding, beginning of year	3,650,048	4,053,774	409,648	396,647
Add redeemable units issued during the year	34,895	177,312	80,684	142,063
Deduct redeemable units redeemed during the year	(753,221)	(634,156)	(137,447)	(136,085)
Redeemable units outstanding before income distribution	2,931,722	3,596,930	352,885	402,625
Add redeemable units issued on reinvested income	66,781	53,118	10,175	7,023
Redeemable units outstanding, end of year	2,998,503	3,650,048	363,060	409,648
Chou Asia Fund				
Redeemable units outstanding, beginning of year	1,995,197	2,320,612	151,313	149,073
Add redeemable units issued during the year	20,913	48,512	42,618	34,604
Deduct redeemable units redeemed during the year	(695,705)	(373,938)	(51,065)	(32,370)
Redeemable units outstanding before income distribution	1,320,405	1,995,186	142,866	151,307
Add redeemable units issued on reinvested income	–	10	–	7
Redeemable units outstanding, end of year	1,320,405	1,995,196	142,866	151,314

4. Holders of redeemable units (continued):

	Series A		Series F	
	2017	2016	2017	2016
Chou Europe Fund				
Redeemable units outstanding, beginning of year	1,253,702	1,505,731	153,652	316,203
Add redeemable units issued during the year	40,095	47,106	23,718	27,745
Deduct redeemable units redeemed during the year	(627,703)	(299,734)	(93,859)	(190,295)
Redeemable units outstanding before income distribution	666,094	1,253,103	83,511	153,653
Add redeemable units issued on reinvested income	–	–	–	–
Redeemable units outstanding, end of year	666,094	1,253,103	83,511	153,653
Chou Bond Fund				
Redeemable units outstanding, beginning of year	4,432,708	4,515,187	403,614	358,475
Add redeemable units issued during the year	56,953	241,329	26,239	93,306
Deduct redeemable units redeemed during the year	(1,542,634)	(682,174)	(171,096)	(77,115)
Redeemable units outstanding before income distribution	2,947,027	4,074,342	257,757	374,666
Add redeemable units issued on reinvested income	157,022	358,366	11,716	28,949
Redeemable units outstanding, end of year	3,104,049	4,432,708	270,473	403,615
Chou RRSP Fund				
Redeemable units outstanding, beginning of year	3,013,778	3,379,086	214,149	161,443
Add redeemable units issued during the year	29,070	104,737	45,774	88,578
Deduct redeemable units redeemed during the year	(862,965)	(560,397)	(45,594)	(41,977)
Redeemable units outstanding before income distribution	2,179,883	2,923,426	214,329	208,044
Add redeemable units issued on reinvested income	66,036	90,351	7,988	6,105
Redeemable units outstanding, end of year	2,245,919	3,013,777	222,317	214,149

5. Related party transactions:

Management fees:

The Manager manages the Funds under a management agreement dated August 10, 2005. The Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A units and 1.0% of the net asset value of Series F units for all Funds other than the Chou Bond Fund on which the Manager is entitled to an annual investment management fee equal to 1.15% 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:

	2017	2016
Chou Associates Fund	$ 6,530,428	$ 6,935,287
Chou Asia Fund	545,719	620,039
Chou Europe Fund	206,011	262,648
Chou Bond Fund	491,143	501,739
Chou RRSP Fund	1,332,207	1,457,647

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

	2017	2016
Chou Associates Fund	$ 459,213	$ 547,984
Chou Asia Fund	36,269	44,588
Chou Europe Fund	13,783	17,059
Chou Bond Fund	30,570	40,045
Chou RRSP Fund	97,081	109,545

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

As at December 31, 2017, the following amounts of Series A redeemable units were held by employees of the Manager. No amounts of Series F redeemable units were held by employees of the Manager.

	2017	2016
Chou Associates Fund	70,590	178,401
Chou Asia Fund	-	405,999
Chou Europe Fund	140,504	535,761
Chou Bond Fund	1,367,460	2,305,784
Chou RRSP Fund	32,185	318,441

5. Related party transactions (continued):

(a) Chou Associates Fund:

As at December 31, 2017, 2.4% of Series A redeemable units (2016 – 5.0%) were held by employees of the Manager.

(b) Chou Asia Fund:

As at December 31, 2017, 0.0% of Series A redeemable units (2016 – 20.3%) were held by employees of the Manager.

(c) Chou Europe Fund:

As at December 31, 2017, 21.1% of Series A redeemable units (2016 – 42.7%) were held by employees of the Manager.

(d) Chou Bond Fund:

As at December 31, 2017, 44.1% of Series A redeemable units (2016 – 56.5%) were held by employees of the Manager.

(e) Chou RRSP Fund:

As at December 31, 2017, 1.4% of Series A redeemable units (2016 – 10.9%) were held by employees of the Manager.

Investments:

The Manager entered into an agreement with Fuel Industries Inc. ("Fuel") to extend an additional credit facility to Fuel on June 22, 2016 for an amount of $1,100,000 CAD. Part of the amount of credit extended to Fuel was used during the year ended December 31, 2016 towards an interest repayment of $543,673 on the Fuel term loan held by Chou RRSP fund.

Chou 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 is secured by all past, present and future entitlements of Fuel Industries Inc. to receive Ontario Interactive Digital Media Tax Credits. In fiscal 2017, principal repayments of $860,460 were received and the Manager purchased the remaining face value of the loan for $5,569,305.

6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Chou Associates Fund	$ 625,514	$ 220,337
Chou Asia Fund	8,991	2,630
Chou Europe Fund	17,677	1,842
Chou Bond Fund	19,971	17,853
Chou RRSP Fund	95,654	43,897

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, 2017 and 2016 are as follows:

2017	Market value of securities on loan	Market value of collateral received
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

2016	Market value of securities on loan	Market value of collateral received
Chou Associates Fund	$ 43,054,579	$ 45,372,346
Chou Asia Fund	3,710,933	4,000,930
Chou Bond Fund	93,175	97,875
Chou RRSP Fund	5,456,817	6,169,131

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, 2017 and 2016. It shows 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.

7. Securities lending (continued):

Chou Associates Fund:

	December 31, 2017	
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 %

	December 31, 2016	
Gross securities lending revenue	$ 5,647,794	100 %
Withholding taxes	(1,653,584)	(29)%
Agent fees	(798,841)	(14)%
Securities lending revenue	$ 3,195,369	57 %

Chou Asia Fund:

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

	December 31, 2016	
Gross securities lending revenue	$ 57,193	100 %
Withholding taxes	(948)	(1)%
Agent fees	(11,249)	(20)%
Securities lending revenue	$ 44,996	79 %

7. Securities lending (continued):

Chou Europe Fund:

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

		December 31, 2016	
Gross securities lending revenue	$	413	100 %
Withholding taxes		(124)	(30)%
Agent fees		(58)	(14)%
Securities lending revenue	$	231	56 %

Chou Bond Fund:

		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%

		December 31, 2016	
Gross securities lending revenue	$	9	100 %
Agent fees		(2)	(22)%
Securities lending revenue	$	7	78 %

7. Securities lending (continued):

Chou RRSP Fund:

	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%

	December 31, 2016	
Gross securities lending revenue	$ 18,277	100 %
Withholding taxes	(2,039)	(11)%
Agent fees	(3,246)	(18)%
Securities lending revenue	$ 12,992	71 %

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.

8. Fair value measurement (continued):

(a) Chou Associates Fund:

2017	Level 1	Level 2	Level 3	Total
Equities	$ 209,424,848	$ 2,974,879	$ –	$ 212,399,727
Bonds	–	43,529,872	–	43,529,872
Held-for-trading assets	–	48,549,466	–	48,549,466
Total	$ 209,424,848	$ 95,054,217	$ -	$ 304,479,065

2016	Level 1	Level 2	Level 3	Total
Equities	$ 265,395,937	$ –	$ 982,162	$ 266,378,099
Bonds	–	56,959,777	–	56,959,777
Held-for-trading assets	95,815,629	–	–	95,815,629
Total	$ 361,211,566	$ 56,959,777	$ 982,162	$ 419,153,505

Fair value measurements using Level 3 inputs:

	Equities	Total
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	Total
Balance, December 31, 2015	$ 757,522	$ 757,522
Purchase of investments	982,162	982,162
Proceeds from sales during the year	(737,947)	(737,947)
Net realized gain on sale of investments	617,440	617,440
Change in unrealized depreciation in value of investments	(637,015)	(637,015)
Balance, December 31, 2016	$ 982,162	$ 982,162

8. Fair value measurement (continued):

(a) Chou Associates Fund (continued):

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. The transfer out of Level 3 investments during the year ended December 31, 2016 is due to the sale of an investment.

Level 2 securities are valued using broker quotes.

Level 3 investments held at December 31, 2016 were valued at cost as the best indicator of fair value.

(b) Chou Asia Fund:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 16,483,615	$ –	$ –	$ 16,483,615

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 11,591,550	$ –	$ –	$ 11,591,550

Fair value measurements using Level 3 inputs:

	Equities	**Total**
Balance, December 31, 2015	$ 2,232,193	$ 2,232,193
Net transfers out during the year	(1,840,835)	(1,840,835)
Net realized loss on sale of investments	(391,358)	(391,358)
Balance, December 31, 2016	$ –	$ –

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

During the year ended December 31, 2016, $1,840,835 was transferred from Level 3 to Level 1 as the underlying security became publicly listed.

8. Fair value measurement (continued):

(c) Chou Europe Fund:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 6,775,082	$ –	$ –	$ 6,775,082

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 11,230,159	$ –	$ –	$ 11,230,159

During the years ended December 31, 2017 and 2016, there were no significant transfers between Level 1, Level 2 and Level 3.

(d) Chou Bond Fund:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 4,261,999	$ 2,057,535	$ 407,129	$ 6,726,663
Bonds	–	18,654,633	1,273,869	19,928,502
Held-for-trading assets	–	–	–	-
Total	$ 4,261,999	$ 20,712,168	$ 1,680,998	$ 26,655,165

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 6,405,731	$ –	$ –	$ 6,405,731
Bonds	–	30,283,070	–	30,283,070
Held-for-trading assets	–	–	10,765	10,765
Total	$ 6,405,731	$ 30,283,070	$ 10,765	$ 36,699,566

8. Fair value measurement (continued):

(d) Chou Bond Fund (continued):

Fair value measurements using Level 3 inputs:

	Bonds	Equities	Total
Balance, December 31, 2016	$ –	$ 10,765	$ 10,765
Received in exchange transaction	1,273,869	407,129	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	$ 1,273,869	$ 407,129	$ 1,680,998

	Equities	Total
Balance, December 31, 2015	$ –	$ –
Net transfers in during the year	10,765	10,765
Balance, December 31, 2016	$ 10,765	$ 10,765

During 2017, term loans valued at $1,680,998 were exchanged for new term loans and common shares in a privatization proceeding. During 2016, 10,765 of private warrants were issued to the Fund as a part of a corporate action.

Equities valued at $2,015,246 at December 31, 2016 were transferred from Level 1 to Level 2 during 2017 due to a reduction in liquidity and trading volumes.

Level 2 securities are valued using broker quotes.

Level 3 bonds are valued by relying on an adjusted interpolated corporate yield curve of comparable credit rating and industry exposure. Where corporate yield curves were not available, the yield to worst of fixed income securities' issued by companies of comparable credit ratings were used.

Level 3 equities are valued using a multiples based approach of total enterprise value to forecast EBITDA ratio of comparable companies from the same industry.

8. Fair value measurement (continued):

(e) Chou RRSP Fund:

2017	Level 1	Level 2	Level 3	Total
Equities	$ 48,574,925	$ 1,629,465	$ –	$ 50,204,390
Bonds	–	12,952,114	–	12,952,114
Held-for-trading assets	–	3,299,372	–	3,299,372
Total	$ 48,574,925	$ 17,880,951	$ –	$ 66,455,876

2016	Level 1	Level 2	Level 3	Total
Equities	$ 51,106,749	$ –	$ 346,895	$ 51,453,644
Bonds	–	19,102,482	3,494,326	22,596,808
Held-for-trading assets	11,179,453	–	–	11,179,453
Total	$ 62,286,202	$ 19,102,482	$ 3,841,221	$ 85,229,905

Fair value measurements using Level 3 inputs:

	Equities	Bonds	Total
Balance, December 31, 2016	$ 346,895	$ 3,494,326	$ 3,841,221
Investments purchased during the year	–	–	–
Net transfers out during the year	(346,895)	–	(346,895)
Receipts of principal repayment	–	(860,460)	(860,460)
Proceeds from sale during the year	–	(5,569,305)	(5,569,305)
Unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	–	2,935,439	2,935,439
Balance, December 31, 2017	$ –	$ –	$ –

	Equities	Bonds	Total
Balance, December 31, 2015	$ –	$ 7,500,000	$ 7,500,000
Investments purchased during the year	159,350	–	159,350
Proceeds from sale during the year	–	(1,070,235)	(1,070,235)
Unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	187,545	(2,935,439)	(2,747,894)
Balance, December 31, 2016	$ 346,895	$ 3,494,326	$ 3,841,221

8. Fair value measurement (continued):

(e) Chou RRSP Fund (continued):

During 2017, equities valued at $2,094,080 at December 31, 2016 were transferred from Level 1 to Level 2 due 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.

Level 3 bonds held at December 31, 2016 were valued using comparable securities, and valuation on collateral assets secured against the loan, consisting of Ontario Interactive Digital Media Tax Credits.

Level 3 equities held at December 31, 2016 were valued at cost as the best indicator of fair value.

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

(a) Chou Associates Fund:

	2017	2016
Financial instruments at FVTPL:		
Held-for-trading	$ 17,164,760	$ 27,695,711
Designated at inception	(257,867)	(42,489,351)
	$ 16,906,893	$ (14,793,640)

(b) Chou Asia Fund:

	2017	2016
Financial assets at FVTPL:		
Held-for-trading	$ 97	$ (3,275)
Designated at inception	6,792,045	1,448,847
	$ 6,792,142	$ 1,445,572

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

(c) Chou Europe Fund:

	2017	2016
Financial instruments at FVTPL:		
Held-for-trading	$ (1,082)	$ (525,973)
Designated at inception	721,138	(3,091,985)
	$ 720,056	$ (3,617,958)

(d) Chou Bond Fund:

	2017	2016
Financial instruments at FVTPL:		
Held-for-trading	$ 36,761	$ (1,038,593)
Designated at inception	(386,670)	5,281,869
	$ (349,909)	$ 4,243,276

(e) Chou RRSP Fund:

	2017	2016
Financial instruments at FVTPL:		
Held-for-trading	$ 3,335,928	$ 4,452,129
Designated at inception	13,999,728	(10,174,370)
	$ 17,335,656	$ (5,722,241)

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:

	2017	**2016**
Chou Europe Fund		
Capital loss carryforward	$ 2,457,076	$ 4,130,112
Non-capital loss carryforward	–	127,668
Chou Bond Fund		
Capital loss carryforward	11,221,707	11,885,290
Chou RRSP Fund		
Capital loss carryforward	2,566,807	133,455

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

CHOU ASIA FUND

Period ended	**Total value of shares**
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**

CHOU EUROPE FUND

Period ended	**Total value of shares**
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**

CHOU BOND FUND

Period ended	**Total value of shares**
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**

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**

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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