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

ANNUAL REPORT 2012

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

CHOU ASSOCIATES FUND

Period ended	Value of initial $10,000 investment	Value of cumulative reinvested capital distributions	Value of cumulative reinvested dividends	Total value of shares
Dec.31, 1986	$10,000	0	0	10,000
Dec.31, 1987	9,259	506	737	10,502
Dec.31, 1988	9,765	1,129	1,106	12,001
Dec.31, 1989	10,861	1,601	1,783	14,244
Dec.31, 1990	8,973	1,322	2,427	12,722
Dec.31, 1991	10,213	2,269	3,198	15,681
Dec.31, 1992	12,030	2,843	3,944	18,817
Dec.31, 1993	13,343	4,147	4,374	21,863
Dec.31, 1994	12,863	3,998	4,440	21,300
Dec.31, 1995	15,281	6,960	5,663	27,904
Dec.31, 1996	18,370	8,367	7,498	34,235
Dec.31, 1997	21,068	14,882	12,085	48,035
Dec.31, 1998	23,975	19,892	15,320	59,187
Dec.31, 1999	21,216	18,470	13,803	53,489
Dec.31, 2000	21,345	18,891	17,731	57,967
Dec.31, 2001	23,975	24,377	22,045	70,397
Dec.31, 2002	29,775	33,657	28,072	91,504
Dec.31, 2003	30,194	36,111	28,467	94,773
Dec.31, 2004	32,241	40,446	30,632	103,319
Dec.31, 2005	36,014	45,180	36,268	117,462
Dec.31, 2006	42,194	52,933	44,384	139,511
Dec.31, 2007	36,819	46,191	42,248	125,258
Dec.31, 2008	24,843	31,166	32,544	88,553
Dec.31, 2009	31,518	39,539	43,797	114,854
Dec.31, 2010	37,243	46,722	52,951	136,916
Dec.31, 2011	30,359	38,086	45,331	113,776
Dec.31, 2012	37,383	46,898	60,164	**$144,446**

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.

CHOU FUNDS

PERFORMANCE OF THE FUNDS
(unaudited)

(Series A units)	December 31						
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Chou Associates Fund							
Total Return	26.96%	-16.90%	19.21%	29.70%	-29.30%	-10.22%	18.77%
Management Expense Ratio (MER)	1.86%	1.84%	1.79%	1.76%	1.73%	1.70%	1.74%
Portfolio turnover rate	16.58%	32.73%	11.29%	13.73%	21.58%	16.61%	14.60%
Net Assets, end of the year (in millions)	$ 426.9	$ 391.9	$ 530.6	$ 497.5	$ 440.6	$ 697.1	$ 650.2
Chou Asia Fund							
Total Return	-1.80%	-4.55%	10.41%	21.71%	-17.60%	16.25%	15.15%
Management Expense Ratio (MER)	1.89%	1.84%	1.81%	1.76%	1.72%	1.72%	1.77%
Portfolio turnover rate	4.53%	8.36%	9.48%	12.84%	13.51%	47.68%	35.00%
Net Assets, end of the year (in millions)	$ 37.7	$ 48.1	$ 62.1	$ 63.2	$ 57.8	$ 76.4	$ 43.8
Chou Europe Fund							
Total Return	27.24%	-4.90%	-0.85%	34.67%	-44.00%	-15.14%	10.70%
Management Expense Ratio (MER)	*0.20%	*0.17%	1.91%	1.80%	*-2.88%	*1.63%	1.78%
Portfolio turnover rate	10.49%	14.53%	11.29%	40.06%	29.71%	26.98%	36.80%
Net Assets, end of the year (in millions)	$ 7.8	$ 6.5	$ 8.2	$ 8.8	$ 7.3	$ 14.3	$ 17.4
Chou Bond Fund							
Total Return	12.95%	-18.40%	32.69%	42.45%	-37.70%	-2.65%	22.00%
Management Expense Ratio (MER)	1.45%	1.47%	1.43%	1.39%	*0.50%	1.34%	*0.40%
Portfolio turnover rate	11.59%	33.88%	67.64%	61.00%	46.02%	36.52%	5.30%
Net Assets, end of the year (in millions)	$ 44.0	$ 50.1	$ 76.9	$ 71.0	$ 52.7	$ 87.0	$ 36.4
Chou RRSP Fund							
Total Return	34.15%	-20.73%	46.62%	27.80%	-42.40%	-9.25%	9.63%
Management Expense Ratio (MER)	1.87%	1.83%	1.80%	1.77%	1.73%	*1.62%	1.74%
Portfolio turnover rate	1.43%	2.96%	9.94%	27.54%	26.85%	12.01%	24.40%
Net Assets, end of the year (in millions)	$ 112.3	$ 100.0	$ 149.6	$ 119.0	$ 118.9	$ 282.6	$ 333.7

*Management fee after waivers and absorption

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

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CHOU ASSOCIATES FUND

(unaudited)

March 15, 2013

Dear Unitholders of Chou Associates Fund,

After the distribution of $2.52, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at December 31, 2012 was $81.20 compared to $65.94 at December 31, 2011, an increase of 27.0%; during the same period, the S&P 500 Total Return Index increased 13.5% in Canadian dollars. In $US, a Series A unit of Chou Associates Fund was up 29.8% while the S&P 500 Total Return Index returned 15.9%.

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

December 31, 2012 (Series A)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**
Chou Associates ($CAN)	27.0%	7.9%	2.9%	4.7%	7.6%
S&P 500 ($CAN)	13.5%	8.7%	1.7%	2.3%	2.0%
Chou Associates ($US)[1]	29.8%	9.8%	2.8%	9.6%	10.2%
S&P 500 ($US)	15.9%	10.8%	1.7%	7.1%	4.5%

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

Factors Influencing the 2012 Results

Positive contributors to the Fund’s performance during the financial year ended December 31, 2012 included equity securities of Watson Pharmaceuticals Inc., Sears Holdings Corporation, Sprint Nextel Corporation, Citigroup Inc., Overstock.com Inc. and The Goldman Sachs Group Inc.

During the year ended December 31, 2012, the Fund's largest equity security decliners were RadioShack Corporation and Resolute Forest Products Inc., while the Fund's largest debt security decliner was Level 3 Communications Inc.

The Fund added Dell Inc., MBIA Inc. and American Depository Receipts ("ADRs") of Nokia Corporation to its portfolio. The Fund sold all of its equity holdings of Valeant Pharmaceuticals International Inc., Office Depot Inc., The Gap Inc., USG Corporation and its warrants of Bank of America. The Fund also sold its 10.00% senior secured notes of Primus Telecommunications Group Inc., due 2017.

[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.

Appearances are Deceiving
As with everything in life, there are always rules to follow and it's no different in the mutual fund industry. When managing mutual funds in Canada, National Instrument 81-102 stipulates that no one security can make up more than 10% of the fund's assets at the time of purchase with that purchase price becoming our historic cost. The problem arises when the stock price drops substantially. At first blush, this would seem to be an opportune time to take advantage of the lower price and buy more of the stock. The problem is that we've already bought close to the 10% maximum limit. The mantra of value investing is that if we are willing to buy a stock at 60% of its intrinsic value, we should buy more of it if it is trading below that. One way of dealing with this compliance conundrum is to sell the security and take the tax loss, wait 30 days and then buy back more of it at a lower price.

This strategy obviously has some limitations. It takes more than a day or two to sell a security when we have a large position. We try to get the best price possible and therefore must proceed in an orderly way without artificially suppressing the price. This process can take some time, maybe a month or two – or even longer. When we finish selling the security, we hope the price of the underlying security doesn't rise. In fact, you take the optimistic road and hope the price will drop even further. In the worst case, if the price rises, we forgo the potential gains but, unfortunately, also the chance to concentrate more in the stock we love.

Such was the case with the TARP warrants of Bank of America. Our analysis showed that the warrants were undervalued and we wanted to buy more. But we were limited as to how much more we could buy because our cost base was approaching 10% of the assets of the Fund. So, we decided to sell the entire holding, wait 30 days and then buy back more since our cost base would be so much lower. Alas, mea culpa, my best-laid plans went awry. Instead of staying flat for a month after selling the warrants, the price rose appreciably and we were not able to buy back the TARP warrants at a cheaper price. The higher price was still relatively inexpensive, but I couldn't bring myself to buy at a price considerably higher than what I sold them for.

We would still like to buy the TARP warrants because the thesis for holding them still holds true. As we said in our previous letter: "We continue to believe U.S. financial institutions are very cheap and TARP warrants associated with these companies are an attractive way to invest in them.

Depending on the price, TARP warrants have several characteristics that make them appealing long-term investments. Specifically, they are long dated, with most expiring around 2018-2019. This time frame of six-plus years allows banks to grow their intrinsic value to a high enough level to have an appreciable impact on the strike price of the stock warrant. In addition, we believe the strike price will be adjusted downward for any quarterly dividend that exceeds a set price. This is rarely seen in a stock warrant. An example: for Bank of America, class 'A' warrants, the strike price is adjusted downward for any quarterly dividend paid exceeding one cent a share.

Bank TARP warrants are complex, with terms and conditions that are unique to each bank. Thus we encourage you to research them for yourself and draw your own conclusions. The legalese is quite intimidating but there is some help on the way. Some banks have started to pay dividends that exceed a set price, and we are starting to see how anti-dilution clauses that were added to protect TARP warrant holders apply with regard to:

a) the adjustment of the strike price.
b) the adjustment to the number of shares you can purchase for each warrant you hold."

What Will Happen if Greece Reverts to the Drachma?
In our last letter, we wrote with regard to investment in the Euro countries and Greece in particular.

"When investors are optimistic of the future, it is hard to find bargains in the market. But introduce some fear and uncertainty and you will find a plethora of bargains. The Eurozone is the perfect environment for finding bargains. For example, there are plenty of Greek companies with fine economics, strong balance sheets and a shareholder friendly management that are selling for less than 4-times after tax earnings. Let's say that Greece, for one reason or another, leaves the Euro and reverts to the drachma. If this currency were then devalued by 50%, that stock would then be valued at 8-times earnings (in Canadian dollars because of the devaluation), which is still very cheap. The same scenario is starting to play out in Spain and Italy."

Our enthusiasm over this is tempered by the fact that the devaluation of the drachma versus the Euro or the Canadian dollar or any of the major currencies may be greater than 80%. We have seen many examples of this happening to international currencies in the past. One example is the Indonesian rupiah during July 1997 to June 1998, when the currency was devalued by about 90% against the U.S. dollar. We saw a similar situation in Russia, from August 1998 to March 1999, when the ruble was devalued by about 78% against the U.S. dollar as well as in Argentina, from January 2002 to June 2002, when the peso was devalued by around 74% against the U.S. dollar. We believe it would be safer and more prudent to buy stocks after any devaluation of the local currency – at least, that is what our research is showing. The key point is that returns of the Chou Funds will be measured in Canadian dollars and not in drachmas. Therefore, substantial currency devaluation is an important factor to consider when investing in troubled countries. The other alternative is to look for companies that are undervalued and also have a substantial operation outside of Greece.

We did buy Trastor Real Estate Investment Co., a Greek real estate firm, for Chou Europe Fund. When we purchased the stock (average cost Euro 0.46), the dividend yield was approximately 20%, the price-to-book value was less than 30% and the company had substantial net cash on the balance sheet. I am happy to say that this purchase has worked out quite well. It is currently trading at Euro 0.71. In Chou Associates Fund, we bought Nokia, the phone manufacturer, at an average cost of $2.28 per share and it is currently trading at $3.43. It is surprising how manic depressive the stock market can be on certain stocks. In the case of Nokia, it was selling way below the value of its patents. The same story can be said of Research in Motion (now called Blackberry). We purchased it at an average cost of $7.12 in Canadian dollars for the Chou RRSP Fund and currently it is trading at $15.40.

Non-Investment (or High Yield) Grade Debt Securities
Non-investment grade debt securities are fully priced and in general, I would stay clear of them. According to JPMorgan Chase, high-yield spreads over comparable Treasuries have continued to narrow, closing at the end of 2012 to approximately 561 basis points, compared to 754 basis points at the end of 2011. Spreads peaked during the 2008 financial crisis to 1,925 basis points. In fact, there is a good chance that these debt securities may now be overvalued, and that the possibility of a large, permanent loss of capital is extremely high. In addition, their prices don't reflect the risks inherent in these debt securities.

The Stock Market
In general, we are not that bullish on the stock market. Aside from a couple of industries like the financial institutions in the U.S. and companies in the retail sector, we are not that comfortable with the prices of many stocks. When an index like the DJIA or the S&P500 is undervalued, you don't put that much emphasis on the macroeconomic factors. We know from history that a free market

economy that has an established rule of law will do well in the long run. Think of the last 100 years: we have gone through the Great Depression, two devastating World Wars, numerous recessions (some of them more severe than the others), but still the U.S. and the Canadian economies have done well. But when the market is closer to being fairly valued as it is now, I tend to fret about issues that I would ignore if the stock market was very cheap. Some of the issues that are bothering me are listed below.

Low Interest Rates

One of the dangers of low interest rates is how investors evaluate companies based on the discounted cash flow method. When rates are so low, it does not make sense to use long Treasuries as the discount rate. If you do, you end up with an inflated valuation for any company whose growth rate is higher than the discount rate. In this case, anything above 3.11% (the current 30-year Treasury bond rate) is infinity. As a precaution, and to have some sense of reality, I would plug in an arbitrary 10% for the discount rate.

Total Debt versus GDP

Total debt (government and private) as a percentage of GDP in the Western world is at an all-time high and eventually we will have to deal with this all-encompassing problem. It is hard to fathom how debt will be paid off or dealt with but in the past, governments have resorted to monetizing the debt.

Commodities

When certain asset classes, such as commodities, have had an exponential rise in price, they create imbalances that are not readily visible. Commodities that were in short supply before the price rise are now more abundantly available and mines that were uneconomic before are viable now. But nothing grows straight to the sky. As any good Economics 101 course teaches you, when prices rise exponentially, demand should fall. However, recent increases have actually brought in a new class of speculators who believe that buying and hoarding the commodity is the way to make money. In addition, a number of countries have pumped in untold amounts of money on infrastructure that’s not needed. As an example, I have been saying for years that China's economy is not as healthy as the government wants us to believe. Huge sums of money have been put into building cities and highways, but all remain eerily empty. You have to see it to believe it: empty skyscrapers, empty shopping malls, empty highways and not a living soul in those cities. I would be wary of investing in any company where the price of a commodity plays a significant role in the company making money.

Money Supply

The U.S. money supply has expanded substantially since 2007 regardless of how you measure it (M1, M2 or M3). But the full impact of the expanded money supply has not yet been felt because confidence remains subdued. In fact, the velocity of money has plummeted below its previous mid-1969 level. Losses in confidence are short-term in nature and when confidence does return and the velocity of money returns to more normalized levels, watch out for inflation. I would not buy into any long dated fixed-income instruments that are dependent on interest rates particularly those issued by countries that are aggressively expanding their money supply.

Looking Forward

We remain true to our value-investing roots and until the markets are more undervalued, it is likely that the Fund will have more cash/cash equivalents in its portfolio in the coming year than in equities. But if a true bargain arises, I will not hesitate to buy it.

Other Matters

NAME CHANGE OF THE AUDITORS: As a result of a merger effective March 1, 2012, our auditors Burns Hubley LLP are now known as KPMG LLP. The auditors' report has been signed accordingly.

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2012.

CREDIT DEFAULT SWAPS: None existed at December 31, 2012.

CONSTANT MATURITY SWAPS: None existed at December 31, 2012.

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

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than two years. 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, Bruce Kerr and Joe Tortolano. The 2012 IRC Annual Report is available on our website www.choufunds.com.

As of March 15, 2013, the NAV of a Series A unit of the Fund was $91.61 and the cash position was 25.7% of net assets. The Fund is up 12.8% from the beginning of the year. In $US, it is up 10.1%. While 2013 is off to a good start, please do not extrapolate these returns into the future.

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

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

KPMG LLP is the external auditor of the Chou Funds. They are appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and on 60 days notice to the unitholders. KPMG LLP audits the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express their opinion on the financial statements. Their audit report is included as an integral part of the financial statements.

Francis Chou

Francis Chou
Chou Associates Management Inc.
March 20, 2013

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INDEPENDENT AUDITORS' REPORT

To the Trustee and Unitholders of:

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

We have audited the accompanying financial statements of the Funds, which comprise the statements of net assets as at December 31, 2012 and 2011, the statements of operations and changes in net assets for the years then ended, the statements of investment portfolio as at December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2012 and 2011, their results of operations and their changes in net assets for the years then ended, and their investments held at December 31, 2012 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 20, 2013
Toronto, Ontario

CHOU ASSOCIATES FUND
STATEMENTS OF NET ASSETS
AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 82,040,795	$ 60,157,241
Accrued interest and dividend income	2,539,885	2,790,141
Receivable for units subscribed	44,973	241,352
Other receivable	165,880	438,935
Due from broker	3,064,154	-
Investments, at fair value	341,104,758	333,337,933
	428,960,445	396,965,602
LIABILITIES		
Accrued expenses	1,024,296	949,271
Payable for units redeemed	539,191	1,731,300
Distributions payable	461,860	334,904
Due to broker	-	2,046,578
	2,025,347	5,062,053
NET ASSETS	$ 426,935,098	$ 391,903,549
NET ASSETS, BY SERIES		
Series A	$ 402,116,923	$ 366,286,195
Series F	24,818,175	25,617,354
	$ 426,935,098	$ 391,903,549
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	4,951,551	5,561,339
Series F	306,407	390,159
NET ASSETS PER UNIT (Note 6)		
Canadian dollars		
Series A	$ 81.21	$ 65.86
Series F	$ 81.00	$ 65.66
U.S. dollars		
Series A	$ 81.64	$ 64.76
Series F	$ 81.43	$ 64.57

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU ASSOCIATES FUND

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INVESTMENT INCOME		
Interest from securities lending	$ 6,671,582	$ 5,605,046
Interest	6,517,265	8,624,327
Dividends	5,241,444	1,871,884
Other income	1,898	-
Income from derivatives	-	2,631,976
	18,432,189	18,733,233
EXPENSES		
Management fees (Note 5)	6,859,935	8,050,863
Custodian fees	587,536	658,111
Foreign withholding taxes	521,719	194,862
Audit	69,585	59,226
Filing fees	55,050	54,600
Legal	22,704	12,027
FundSERV fees	18,300	24,467
Independent Review Committee fees	16,019	15,739
	8,150,848	9,069,895
NET INVESTMENT INCOME FOR THE YEAR	10,281,341	9,663,338
NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS		
Transaction costs	(502,554)	(414,124)
Net realized gain on sale of investments	4,383,956	27,286,193
Change in unrealized appreciation (depreciation) in value of investments	85,248,126	(118,014,431)
	89,129,528	(91,142,362)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	$ 99,410,869	$ (81,479,024)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Series A	$ 93,154,093	$ (76,088,428)
Series F	6,256,776	(5,390,596)
	$ 99,410,869	$ (81,479,024)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 18.14	$ (13.05)
Series F	$ 18.51	$ (13.04)

CHOU ASSOCIATES FUND
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SERIES A		
NET ASSETS, beginning of the year	$ 366,286,195	$ 497,541,704
Increase (decrease) in net assets from operations	93,154,093	(76,088,428)
Proceeds from issue of units	6,995,316	15,931,374
Payments on redemption of units	(64,000,600)	(70,877,316)
Distribution of income to unitholders		
Investment income	(12,104,894)	(6,993,557)
Reinvested distributions	11,786,813	6,772,418
NET ASSETS, end of the year	402,116,923	366,286,195
SERIES F		
NET ASSETS, beginning of the year	25,617,354	31,965,842
Increase (decrease) in net assets from operations	6,256,776	(5,390,596)
Proceeds from issue of units	2,616,558	5,956,665
Payments on redemption of units	(9,528,733)	(6,800,840)
Distribution of income to unitholders		
Investment income	(864,717)	(667,033)
Reinvested distributions	720,937	553,316
NET ASSETS, end of the year	24,818,175	25,617,354
TOTAL NET ASSETS, end of the year	$ 426,935,098	$ 391,903,549

CHOU ASSOCIATES FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2012

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Berkshire Hathaway Inc., Class A	300	$ 31,639,836	$ 40,137,566
Citigroup Inc.	410,000	10,358,742	16,141,764
Dell Inc.	2,500,000	25,371,032	25,190,733
Int’l Automotive Components Group North America	1,094,922	120,506	272,279
JPMorgan Chase & Company, warrants, Oct 28, 2018	1,126,347	13,927,767	13,265,245
MBIA Inc.	1,080,797	7,479,425	8,439,275
Media General Inc., Class A	218,132	4,931,152	932,995
Nokia Corporation ADR	5,000,000	11,772,513	19,645,291
Olympus Re Holdings Ltd.	1,652,836	-	1,249,496
Orchard Supply Hardware Stores Co., Class A	21,845	551,068	161,013
Orchard Supply Hardware Stores Co., Series A pfd	21,845	9,919	37,157
Overstock.com Inc.	1,594,709	32,096,886	22,699,299
Primus Telecommunications Group Inc.	451,022	2,274,167	4,872,130
RadioShack Corporation	1,294,071	15,953,718	2,728,886
Resolute Forest Products Inc.**	2,062,603	37,682,647	27,143,563
Sanofi ADR	390,000	13,783,524	18,387,992
Sears Canada Inc.	292,830	2,249,021	2,933,164
Sears Holdings Corporation	683,700	31,436,282	28,114,309
Sprint Nextel Corporation	2,123,200	7,687,709	11,953,599
The Goldman Sachs Group Inc.	165,000	20,645,109	20,945,660
Watson Pharmaceuticals Inc.	335,400	9,737,522	28,688,138
Wells Fargo & Company, warrants, Oct 28, 2018	997,500	7,995,397	9,922,115
		287,703,942	303,861,669
BONDS			
Level 3 Comm. Inc., 15.0%, conv., Jan 15, 2013	30,250,000	36,708,938	30,390,519
R.H. Donnelley Inc., term loans, Oct 24, 2014	10,131,021	7,909,609	6,852,570
		44,618,547	37,243,089
TOTAL EQUITIES AND BONDS		332,322,489	341,104,758
TRANSACTION COSTS		(1,060,578)	-
PORTFOLIO TOTAL		$ 331,261,911	$ 341,104,758

* Common shares unless indicated otherwise

** AbitibiBowater changed its name to Resolute Forest Products Inc.

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 company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Risk Management

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

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. As of December 31, 2012, the Fund invested approximately 8.7% (2011 – 14.0%) 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 S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

Interest Rate Risk

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

Debt Instruments by Maturity Date:

	2012	2011
Less than 1 year	$ 30,390,519	$ 13,912
1-3 years	$ 6,852,570	$ 39,375,510
Greater than 5 years	$ 0	$ 15,913,712

As at December 31, 2012, should interest rates have 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 $734,484.

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

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 71% (2011 – 71%) of the Fund's Net Assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2012, the Net Assets of the Fund would have increased or decreased by approximately $15,193,000, or 3.6% of the Net Assets, all other factors remaining constant.

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

Foreign Currency Risk

Currencies to which the Fund had exposure as at December 31 are as follows:

2012

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	419,252,078	98.2%

2011

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	380,581,677	97.1%
Euro Currency	11,223,574	2.9%

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

If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately $4,193,000.

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

CHOU ASIA FUND

(unaudited)

March 15, 2013

Dear Unitholders of Chou Asia Fund,

After the distribution of $0.01, the net asset value per unit ("NAVPU") of a Series A unit of Chou Asia Fund at December 31, 2012 was $13.51 compared to $13.77 at December 31, 2011 a decrease of 1.8%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars returned 14.5%. In $US, a Series A unit of Chou Asia Fund was up 0.4% while the MSCI AC Asia Pacific Total Return Index returned 17.0%.

The table shows our 1 year, 3 year, 5 year and since inception compound rates of return.

December 31, 2012 (Series A)	1 Year	3 Years	5 Years	Since Inception
Chou Asia ($CAN)	-1.8%	1.2%	0.7%	6.6%
MSCI AC Asia Pacific TR ($CAN)	14.5%	3.3%	-1.1%	4.3%
Chou Asia ($US)[1]	0.4%	2.9%	0.6%	10.2%
MSCI AC Asia Pacific TR ($US)	17.0%	5.3%	-1.2%	8.3%

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 2012 Results

PRONEXUS Inc. and BYD Company Limited were positive contributors to the Fund's performance.

Most of the declines came from the equity securities of Sankyo Company Limited, Qiao Xing Mobile Communication Company Ltd., UTStarcom Holdings Corporation and Pyne Gould Corporation Limited.

The Fund sold all its equity holdings of Able Chintai Holdings, SK Telecom Company Limited and Delta Electronics (Thailand) Public Company Limited.

China & Commodities

When certain asset classes, such as commodities, have had an exponential rise in price, they create imbalances that are not readily visible. Commodities that were in short supply before the price rise are now more abundantly available and mines that were uneconomic before are viable now. But nothing grows straight to the sky. As any good Economics 101 course teaches you, when prices rise exponentially, demand should fall. However, recent increases have actually brought in a new class of speculators who believe that buying and hoarding the commodity is the way to make money. In

[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.

addition, a number of countries have pumped in untold amounts of money on infrastructure that's not needed. As an example, I have been saying for years that China's economy is not as healthy as the government wants us to believe. Huge sums of money have been put into building cities and highways, but all remain eerily empty. You have to see it to believe it: empty skyscrapers, empty shopping malls, empty highways and not a living soul in those cities. I would be wary of investing in any company where the price of a commodity plays a significant role in the company making money.

Other Matters

NAME CHANGE OF THE AUDITORS: As a result of a merger effective March 1, 2012, our auditors Burns Hubley LLP are now known as KPMG LLP. The auditors' report has been signed accordingly.

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2012.

CREDIT DEFAULT SWAPS: None existed at December 31, 2012.

CONSTANT MATURITY SWAPS: None existed at December 31, 2012.

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

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than two years. 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, Bruce Kerr and Joe Tortolano. The 2012 IRC Annual Report is available on our website www.choufunds.com.

As of March 15, 2013, the NAV of a Series A unit of the Fund was $14.20 and the cash position was 40.3% of net assets. The Fund is up 5.1% from the beginning of the year. In $US, it is up 2.5%.

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 NET ASSETS
AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 17,458,211	$ 17,723,499
Accrued interest and dividend income	-	128,572
Receivable for units subscribed	24,146	2,245
Investments, at fair value	20,315,349	30,504,004
	37,797,706	48,358,320
LIABILITIES		
Accrued expenses	82,227	84,547
Payable for units redeemed	49,870	142,528
Distributions payable	517	33,437
Due to broker	-	1,524
	132,614	262,036
NET ASSETS	$ 37,665,092	$ 48,096,284
NET ASSETS, BY SERIES		
Series A	$ 36,596,045	$ 45,911,587
Series F	1,069,047	2,184,697
	$ 37,665,092	$ 48,096,284
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	2,711,744	3,348,296
Series F	78,634	158,974
NET ASSETS PER UNIT (Note 6)		
Canadian dollars		
Series A	$ 13.50	$ 13.71
Series F	$ 13.60	$ 13.74
U.S. dollars		
Series A	$ 13.57	$ 13.48
Series F	$ 13.67	$ 13.51

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU ASIA FUND

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INVESTMENT INCOME		
Dividends	$ 783,521	$ 1,010,103
Interest	16,094	29,330
Other income	1,741	-
	801,356	1,039,433
EXPENSES		
Management fees (Note 5)	711,696	875,304
Foreign withholding taxes	89,048	110,289
Custodian fees	67,459	70,538
Filing fees	7,340	7,280
Audit	6,213	4,859
FundSERV fees	4,147	2,051
Legal	3,404	-
Independent Review Committee fees	1,901	1,707
	891,208	1,072,028
NET INVESTMENT LOSS FOR THE YEAR	(89,852)	(32,595)
NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS		
Transaction costs	(22,641)	(27,693)
Net realized gain (loss) on sale of investments	(26,658)	1,698,393
Change in unrealized depreciation in value of investments	(549,837)	(4,572,284)
	(599,136)	(2,901,584)
DECREASE IN NET ASSETS FROM OPERATIONS	$ (688,988)	$ (2,934,179)
DECREASE IN NET ASSETS FROM OPERATIONS		
Series A	$ (652,955)	$ (2,778,668)
Series F	(36,033)	(155,511)
	$ (688,988)	$ (2,934,179)
DECREASE IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ (0.22)	$ (0.79)
Series F	$ (0.28)	$ (0.85)

CHOU ASIA FUND

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SERIES A		
NET ASSETS, beginning of the year	$ 45,911,587	$ 58,921,609
Decrease in net assets from operations	(652,955)	(2,778,668)
Proceeds from issue of units	247,342	1,994,663
Payments on redemption of units	(8,909,609)	(12,205,220)
Distribution of income to unitholders		
Investment income	(16,896)	(19,101)
Capital gains	-	(1,321,584)
Reinvested distributions	16,576	1,319,888
NET ASSETS, end of the year	36,596,045	45,911,587
SERIES F		
NET ASSETS, beginning of the year	2,184,697	3,147,537
Decrease in net assets from operations	(36,033)	(155,511)
Proceeds from issue of units	115,539	475,557
Payments on redemption of units	(1,194,959)	(1,270,246)
Distribution of income to unitholders		
Investment income	(787)	(11,759)
Capital gains	-	(62,812)
Reinvested distributions	590	61,931
NET ASSETS, end of the year	1,069,047	2,184,697
TOTAL NET ASSETS, end of the year	$ 37,665,092	$ 48,096,284

CHOU ASIA FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2012

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
AJIS Company Limited	15,200	$ 213,157	$ 186,548
BYD Company Limited, Class H	1,383,500	2,389,886	4,110,320
BYD Electronic (International) Company Ltd.	5,789,500	1,404,101	1,493,422
China Yuchai International Limited	25,537	341,981	399,567
Chunghwa Telecom Company Ltd. ADR	132,088	2,947,411	4,245,137
Glacier Media Inc.	513,307	1,386,057	893,154
Hanfeng Evergreen Inc.	95,850	228,548	144,734
PRONEXUS Inc.	657,500	3,093,390	3,702,258
Pyne Gould Corporation Limited	8,123,713	1,788,981	1,736,878
Qiao Xing Mobile Communication Company Ltd.	1,584,397	1,803,394	-
Resolute Forest Products Inc.**	36,041	963,559	474,294
Sankyo Company Limited	60,000	2,684,475	2,358,046
UTStarcom Holdings Corporation	562,779	2,174,029	570,991
		21,418,969	20,315,349
TOTAL EQUITIES		21,418,969	20,315,349
TRANSACTION COSTS		(27,160)	-
PORTFOLIO TOTAL		$ 21,391,809	$ 20,315,349

* Common shares unless indicated otherwise

**AbitibiBowater changed its name to Resolute Forest Products Inc.

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 Funds 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 company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Risk Management

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

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 54.0% (2011 – 63.4%) of the Fund’s Net Assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2012, the Net Assets of the Fund would have increased or decreased by approximately $1,016,000, or 2.7% of the Net Assets, all other factors remaining constant.

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

Foreign Currency Risk

Currencies to which the Fund had exposure as at December 31 are as follows:

2012

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	16,208,335	43.0%
Japanese Yen	12,032,276	32.0%
HongKong Dollar	5,682,334	15.1%
New Zealand Dollar	1,780,444	4.7%
Singapore Dollar	142,016	0.4%

2011

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	22,101,039	46.0%
Japanese Yen	10,868,628	22.6%
HongKong Dollar	3,537,062	7.4%
New Zealand Dollar	2,027,880	4.2%
Thailand Baht	1,227,277	2.6%
Singapore Dollar	136,873	0.3%

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

If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately $359,000.

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

CHOU EUROPE FUND

(unaudited)

March 15, 2013

Dear Unitholders of Chou Europe Fund,

After the distribution of $0.30, the net asset value per unit ("NAVPU") of a Series A unit of Chou Europe Fund at December 31, 2012 was $8.32 compared to $6.78 at December 31, 2011, an increase of 27.2%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars returned 17.3%. In $US, a Series A unit of Chou Europe Fund was up 30.1% while the MSCI AC Europe Total Return Index returned 19.9%.

The table shows our 1 year, 3 year, 5 year and since inception compound rates of return.

December 31, 2012 (Series A)	**1 Year**	**3 Years**	**5 Years**	**Since Inception**
Chou Europe ($CAN)	27.2%	6.3%	-2.0%	1.3%
MSCI AC Europe TR ($CAN)	17.3%	1.8%	-3.9%	4.3%
Chou Europe ($US)[1]	30.1%	8.1%	-2.1%	4.7%
MSCI AC Europe TR ($US)	19.9%	3.9%	-3.9%	7.9%

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 2012 Results

The Eurozone's problems continued in 2012 with concerns in the financial markets about debt-ridden countries and slow economic growth. These concerns spread to Italy and Spain, causing the bond yields in the respective countries to rise dramatically and forcing the European Central Bank to implement quantitative easing. Economic growth in the Eurozone continues to be anemic and governments continue to apply aggressive austerity measures.

Positive contributors to the Fund's performance during the financial year ended December 31, 2012 included equity securities of Aer Lingus Group PLC, Ryanair Holdings PLC ADR, Sanofi ADR and Next PLC. Securities in the portfolio that declined most in 2012 were Vodafone Group PLC ADR, GlaxoSmithKline PLC and BP PLC ADR.

The Hellenic Republic swapped its amended Greek-law governed bonds on March 12, 2012 by delivering (i) new bonds of the Republic having principal equal to 31.5% of the principal of the amended bonds (ii) two series of PSI Payment Notes maturing on March 12, 2013 and March 12, 2014, respectively, which together have a principal equal to 15% of the principal of the amended

[1] 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.

bonds and (iii) detachable GDP-linked securities of the Republic having a notional amount equal to the principal of each holder's new bonds. The Fund sold both series of PSI Payment Notes maturing on March 12, 2013 and March 12, 2014.

The Fund added Trastor Real Estate Investment Company to its portfolio and sold out Nokia Corporation ADR, as well as the Fund's debt securities of both Hellenic Republic and MannKind Corporation.

What Will Happen if Greece Reverts to the Drachma?
In our last letter, we wrote with regard to investment in the Euro countries and Greece in particular.

"When investors are optimistic of the future, it is hard to find bargains in the market. But introduce some fear and uncertainty and you will find a plethora of bargains. The Eurozone is the perfect environment for finding bargains. For example, there are plenty of Greek companies with fine economics, strong balance sheets and a shareholder friendly management that are selling for less than 4-times after tax earnings. Let's say that Greece, for one reason or another, leaves the Euro and reverts to the drachma. If this currency were then devalued by 50%, that stock would then be valued at 8-times earnings (in Canadian dollars because of the devaluation), which is still very cheap. The same scenario is starting to play out in Spain and Italy."

Our enthusiasm over this is tempered by the fact that the devaluation of the drachma versus the Euro or the Canadian dollar or any of the major currencies may be greater than 80%. We have seen many examples of this happening to international currencies in the past. One example is the Indonesian rupiah during July 1997 to June 1998, when the currency was devalued by about 90% against the U.S. dollar. We saw a similar situation in Russia, from August 1998 to March 1999, when the ruble was devalued by about 78% against the U.S. dollar as well as in Argentina, from January 2002 to June 2002, when the peso was devalued by around 74% against the U.S. dollar. We believe it would be safer and more prudent to buy stocks after any devaluation of the local currency – at least, that is what our research is showing. The key point is that returns of the Chou Funds will be measured in Canadian dollars and not in drachmas. Therefore, substantial currency devaluation is an important factor to consider when investing in troubled countries. The other alternative is to look for companies that are undervalued and also have a substantial operation outside of Greece.

We did buy Trastor Real Estate Investment Co., a Greek real estate firm, for Chou Europe Fund. When we purchased the stock (average cost Euro 0.46), the dividend yield was approximately 20%, the price-to-book value was less than 30% and the company had substantial net cash on the balance sheet. I am happy to say that this purchase has worked out quite well. It is currently trading at Euro 0.71.

Looking Forward
We remain true to our value-investing roots and until the markets are more fairly valued, it is likely that the Fund will have more cash/cash equivalents in its portfolio in the coming year than in equities. But if a true bargain arises, I will not hesitate to buy it.

Other Matters
NAME CHANGE OF THE AUDITORS: As a result of a merger effective March 1, 2012, our auditors Burns Hubley LLP are now known as KPMG LLP. The auditors' report has been signed accordingly.

MANAGEMENT FEES: Our record since inception has not been as stellar as we would have liked. As a result, I will not be charging management fees for a period of three years, starting from January 1, 2011 through December 31, 2013.

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2012.

CREDIT DEFAULT SWAPS: None existed at December 31, 2012.

CONSTANT MATURITY SWAPS: None existed at December 31, 2012.

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

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than two years. 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, Bruce Kerr and Joe Tortolano. The 2012 IRC Annual Report is available on our website www.choufunds.com.

As of March 15, 2013, the NAV of a Series A unit of the Fund was $9.17 and the cash position was 20.5% of net assets. The Fund is up 10.2% from the beginning of the year. In $US, it is up 7.6%. While 2013 is off to a good start, please do not extrapolate these returns into the future.

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 NET ASSETS

AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 1,547,846	$ 92,167
Accrued interest and dividend income	20,988	54,467
Receivable for units subscribed	20,000	-
Investments, at fair value	6,215,521	6,451,820
	7,804,355	6,598,454
LIABILITIES		
Accrued expenses	5,886	6,452
Payable for units redeemed	-	47,328
Distributions payable	5,117	925
	11,003	54,705
NET ASSETS	$ 7,793,352	$ 6,543,749
NET ASSETS, BY SERIES		
Series A	$ 7,775,095	$ 6,517,407
Series F	18,257	26,342
	$ 7,793,352	$ 6,543,749
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	937,889	964,369
Series F	2,180	3,858
NET ASSETS PER UNIT (Note 6)		
Canadian dollars		
Series A	$ 8.29	$ 6.76
Series F	$ 8.37	$ 6.83
U.S. dollars		
Series A	$ 8.33	$ 6.65
Series F	$ 8.42	$ 6.72

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU EUROPE FUND

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INVESTMENT INCOME		
Dividends	$ 258,844	$ 199,005
Interest	53,395	34,004
	312,239	233,009
EXPENSES		
Management fees (Note 5)	118,920	122,945
Foreign withholding taxes	34,471	22,438
Custodian fees	11,474	9,976
Filing fees	1,593	109
Legal	566	-
FundSERV fees	484	272
Independent Review Committee fees	267	243
Audit	-	2,429
	167,775	158,412
Expenses waived by the Manager (Note 5)	(118,920)	(122,945)
	48,855	35,467
NET INVESTMENT INCOME FOR THE YEAR	263,384	197,542
NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS		
Transaction costs	(449)	(1,661)
Net realized loss on sale of investments	(390,399)	(1,746,900)
Change in unrealized appreciation in value of investments	1,829,864	1,154,825
	1,439,016	(593,736)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	$ 1,702,400	$ (396,194)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Series A	$ 1,695,673	$ (349,639)
Series F	6,727	(46,555)
	$ 1,702,400	$ (396,194)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 1.82	$ (0.36)
Series F	$ 1.57	$ (0.75)

CHOU EUROPE FUND
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SERIES A		
NET ASSETS, beginning of the year	$ 6,517,407	$ 7,344,730
Increase (decrease) in net assets from operations	1,695,673	(349,639)
Proceeds from issue of units	280,469	204,549
Payments on redemption of units	(713,337)	(681,308)
Distribution of income to unitholders		
Investment income	(274,418)	(179,135)
Reinvested distributions	269,301	178,210
NET ASSETS, end of the year	7,775,095	6,517,407
SERIES F		
NET ASSETS, beginning of the year	26,342	884,696
Increase (decrease) in net assets from operations	6,727	(46,555)
Proceeds from issue of units	15,754	-
Payments on redemption of units	(30,566)	(811,799)
Distribution of income to unitholders		
Investment income	(644)	(472)
Reinvested distributions	644	472
NET ASSETS, end of the year	18,257	26,342
TOTAL NET ASSETS, end of the year	$ 7,793,352	$ 6,543,749

CHOU EUROPE FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2012

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Abbey PLC	36,170	$ 259,868	$ 301,152
Aer Lingus Group PLC	200,000	182,560	283,349
AstraZeneca PLC	13,000	701,770	612,009
BP PLC ADR	10,000	313,497	414,292
GlaxoSmithKline PLC	18,000	491,338	388,663
Heracles General Cement Company S.A.	5,887	29,127	9,576
Next PLC	18,000	581,417	1,079,459
Ryanair Holdings PLC ADR	27,000	760,022	920,384
Sanofi ADR	20,000	884,092	942,974
The Governor and Company of the Bank of Ireland	3,400,000	383,114	499,534
Topps Tiles PLC	169,972	235,934	137,560
Trastor Real Estate Investment Company	458,612	264,211	376,005
Vodafone Group PLC ADR	10,000	198,082	250,564
		5,285,032	6,215,521
TRANSACTION COSTS		(3,757)	-
PORTFOLIO TOTAL		$ 5,281,275	$ 6,215,521

* Common shares unless indicated otherwise

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 company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Risk Management

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

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 79.8% (2011 – 85.4%) of the Fund’s Net Assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2012, the Net Assets of the Fund would have increased or decreased by approximately $310,000, or 4.0% of the Net Assets, all other factors remaining constant.

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

Foreign Currency Risk

Currencies to which the Fund had exposure as at December 31 are as follows:

2012

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	3,164,085	40.6%
Sterling Pound	2,369,265	30.4%
Euro Currency	1,995,164	25.6%

2011

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	2,935,404	44.9%
Sterling Pound	2,184,609	33.4%
Euro Currency	1,346,208	20.6%

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

If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies with all other variables held constant, net assets would have decreased or increased by approximately $75,000.

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

CHOU BOND FUND

(unaudited)

March 15, 2013

Dear Unitholders of Chou Bond Fund,

After the distribution of $0.72, the net asset value per unit ("NAVPU") of a Series A unit of Chou Bond Fund at December 31, 2012 was $8.31 compared to $8.00 at December 31, 2011, an increase of 13.0%; during the same period, Citigroup WGBI (World Government Bond Index) All Maturities ($CAN) was down 0.6% and Barclays U.S. Corporate High Yield Index ($CAN) returned 13.2%. In $US, a Series A unit of Chou Bond Fund was up 15.5% while Citigroup WGBI All Maturities returned 1.6% and Barclays U.S. Corporate High Yield Index returned 15.8%.

The table shows our 1 year, 3 year, 5 year and since inception annual compound rates of return.

December 31, 2012 (Series A)	**1 Year**	**3 Years**	**5 Years**	**Since Inception**
Chou Bond ($CAN)	13.0%	6.9%	1.7%	4.1%
Citigroup WGBI ($CAN)	-0.6%	2.6%	5.5%	3.0%
Barclays' U.S. High Yield ($CAN)	13.2%	10.0%	10.5%	6.3%
Chou Bond ($US) [1]	15.5%	8.8%	1.5%	6.5%
Citigroup WGBI ($US)	1.6%	4.4%	5.3%	5.5%
Barclays' U.S High Yield ($US)	15.8%	11.9%	10.3%	8.9%

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 2012 Results

Over the past several years, global financial markets have been very volatile and 2012 proved to be no exception. On the positive side, corporate profits in the United States remained strong and corporate balance sheets continued to improve. Spreads on high-grade and high-yield bonds continued to contract, reflecting increased confidence in an economic recovery. However, there were many periods of turmoil in 2012. Central banks came to the rescue, reassuring nervous investors through various forms of quantitative easing and promising low rates for extended periods of time. For example, the U.S. Federal Reserve said it would not raise rates until 2015.

The debt securities of Dex Media West LLC, Goldman Sachs Capital II, R.H. Donnelley Inc. and MannKind Corporation contributed the most to the Fund's performance during the year.

[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.

Declines came from the debt securities of ATP Oil & Gas Corporation and MBIA Insurance Company as well as equity securities of Resolute Forest Products Inc. and Postmedia Network Canada Corporation. The Fund received all these equity securities as the result of debt restructuring.

The Fund sold all of its Level 3 Communications' 11.875% bonds due 2019, Primus Telecommunications Holdings' 10.0% bonds due 2017 and its Hellenic Republic debt securities.

The Hellenic Republic swapped its amended Greek-law governed bonds on March 12, 2012 by delivering (i) new bonds of the Republic having a principal equal to 31.5% of the principal of the amended bonds, (ii) two series of PSI Payment Notes maturing on March 12, 2013 and March 12 2014, respectively, which together have a principal equal to 15% of the principal of the amended bonds and (iii) detachable GDP-linked securities of the Republic having a notional amount equal to the principal of each holder's new bonds. The Fund sold both series of PSI Payment Notes maturing on March 12, 2013 and March 12, 2014.

Non-Investment (or High Yield) Grade Debt Securities

Non-investment grade debt securities are fully priced and in general, I would stay clear of them. According to JPMorgan Chase, high-yield spreads over comparable Treasuries have continued to narrow, closing at the end of 2012 to approximately 561 basis points, compared to 754 basis points at the end of 2011. Spreads peaked during the 2008 financial crisis to 1,925 basis points. In fact, there is a good chance that these debt securities may now be overvalued, and that the possibility of a large, permanent loss of capital is extremely high. In addition, their prices don't reflect the risks inherent in these debt securities.

Money Supply

The U.S. money supply has expanded substantially since 2007 regardless of how you measure it (M1, M2 or M3). But the full impact of the expanded money supply has not yet been felt because confidence remains subdued. In fact, the velocity of money has plummeted below its previous mid-1969 level. Losses in confidence are short-term in nature and when confidence does return and the velocity of money returns to more normalized levels, watch out for inflation. I would not buy into any long dated fixed-income instruments that are dependent on interest rates particularly those issued by countries that are aggressively expanding their money supply.

Looking Forward

We remain true to our value-investing roots and it is likely that the Fund will have more cash/cash equivalents in its portfolio in the coming year than in debt securities. But if a true bargain arises, I will not hesitate to buy it.

Other Matters

NAME CHANGE OF THE AUDITORS: As a result of a merger effective March 1, 2012, our auditors Burns Hubley LLP are now known as KPMG LLP. The auditors' report has been signed accordingly.

FOREIGN CURRENCY CONTRACTS: None existed at December 31, 2012.

CREDIT DEFAULT SWAPS: None existed at December 31, 2012.

CONSTANT MATURITY SWAPS: None existed at December 31, 2012.

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than two years. 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, Bruce Kerr and Joe Tortolano. The 2012 IRC Annual Report is available on our website www.choufunds.com.

As of March 15, 2013, the NAV of a Series A unit of the Fund was $9.27 and the cash position was 15.2% of net assets. The Fund is up 11.6% from the beginning of the year. In $US, it is up 8.9%. While 2013 is off to a good start, please do not extrapolate these returns into the future.

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 NET ASSETS

AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 5,121,958	$ -
Accrued interest income	825,408	1,272,920
Receivable for units subscribed	2,000	35,650
Due from broker	-	1,111,709
Investments, at fair value	38,229,795	48,711,761
	44,179,161	51,132,040
LIABILITIES		
Bank overdraft	-	382,993
Accrued expenses	63,941	76,781
Payable for units redeemed	17,031	456,353
Distributions payable	102,097	136,313
	183,069	1,052,440
NET ASSETS	$ 43,996,092	$ 50,079,600
NET ASSETS, BY SERIES		
Series A	$ 36,821,292	$ 40,640,518
Series F	7,174,800	9,439,082
	$ 43,996,092	$ 50,079,600
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	4,434,113	5,091,719
Series F	861,551	1,181,760
NET ASSETS PER UNIT (Note 6)		
Canadian dollars		
Series A	$ 8.30	$ 7.98
Series F	$ 8.33	$ 7.99
U.S. dollars		
Series A	$ 8.34	$ 7.85
Series F	$ 8.37	$ 7.86

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU BOND FUND

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INVESTMENT INCOME		
Interest	$ 4,132,844	$ 5,536,289
Interest from securities lending	-	1,469
	4,132,844	5,537,758
EXPENSES		
Management fees (Note 5)	583,768	821,221
Custodian fees	50,119	95,937
Filing fees	9,175	9,100
Audit	6,213	4,859
FundSERV fees	4,915	2,431
Legal	3,973	-
Independent Review Committee fees	1,889	2,173
	660,052	935,721
NET INVESTMENT INCOME FOR THE YEAR	3,472,792	4,602,037
NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS		
Transaction costs	(4,288)	(5,619)
Net realized gain (loss) on sale of investments	(2,109,621)	4,886,801
Change in unrealized appreciation (depreciation) in value of investments	4,232,759	(21,640,358)
	2,118,850	(16,759,176)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	$ 5,591,642	$ (12,157,139)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Series A	$ 4,571,108	$ (9,514,603)
Series F	1,020,534	(2,642,536)
	$ 5,591,642	$ (12,157,139)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT		
Series A	$ 1.01	$ (1.89)
Series F	$ 0.98	$ (1.89)

CHOU BOND FUND
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SERIES A		
NET ASSETS, beginning of the year	$ 40,640,518	$ 59,957,942
Increase (decrease) in net assets from operations	4,571,108	(9,514,603)
Proceeds from issue of units	1,326,204	10,292,028
Payments on redemption of units	(9,628,700)	(19,981,658)
Distribution of income to unitholders		
Investment income	(2,950,185)	(3,712,133)
Reinvested distributions	2,862,347	3,598,942
NET ASSETS, end of the year	36,821,292	40,640,518
SERIES F		
NET ASSETS, beginning of the year	9,439,082	16,741,235
Increase (decrease) in net assets from operations	1,020,534	(2,642,536)
Proceeds from issue of units	396,751	1,838,292
Payments on redemption of units	(3,667,308)	(6,474,787)
Distribution of income to unitholders		
Investment income	(570,995)	(852,694)
Reinvested distributions	556,736	829,572
NET ASSETS, end of the year	7,174,800	9,439,082
TOTAL NET ASSETS, end of the year	$ 43,996,092	$ 50,079,600

CHOU BOND FUND
STATEMENT OF INVESTMENTS
AS AT DECEMBER 31, 2012

	No. of Units or Par Value	Cost	Market Value
SHARES[1]			
Catalyst Paper Corporation[2]	108,606	$ 47,448	$ 118,833
Postmedia Network Canada Corporation[2]	85,071	2,896,098	161,635
Resolute Forest Products Inc. [2] [3]	501,463	4,521,115	6,599,181
		7,464,661	6,879,649
BONDS			
Atlanticus Holdings Corp., 5.875%, Nov 30, 2035[4]	13,150,000	5,820,981	5,232,113
ATP Oil & Gas Corp., 11.875%, May 1, 2015	2,000,000	1,438,358	226,294
Catalyst Paper Co., 11.0%, Oct 30, 2017	3,632,082	2,891,063	2,763,812
Dex Media West LLC. , term loans, Oct 24, 2014	3,859,922	2,260,767	2,860,396
Dex One Corp., 14.0%, Jan 29, 2017	3,170,826	2,378,115	1,080,250
Goldman Sachs Capital II, 4.0%, Jun 1, 2043	2,000,000	934,458	1,543,971
Level 3 Comm. Inc., 6.50%, Oct 1, 2016	1,470,000	1,489,209	2,063,466
MannKind Corp., 3.75%, conv., Dec 15, 2013	8,900,000	5,471,392	6,241,234
MBIA Insurance Company, 14.0%, Jan 15, 2033	1,000,000	429,702	169,099
Media General Inc., 11.75%, Feb 15, 2017	1,050,000	993,399	1,203,709
MEGA Brands Inc., 10.0%, Mar 31, 2015	2,107,211	1,661,994	2,239,965
R.H. Donnelley Inc., term loans, Oct 24, 2014	4,926,522	4,024,387	3,332,274
Taiga Building Products Ltd., 14.0%, Sep 1, 2020	1,712,000	1,705,899	1,796,744
Texas Competitive Electric, 10.25%, Nov 1, 2015	2,000,000	1,932,609	596,819
		33,432,333	31,350,146
TOTAL EQUITIES AND BONDS		40,896,994	38,229,795
TRANSACTION COSTS		(33,255)	-
PORTFOLIO TOTAL		$ 40,863,739	$ 38,229,795

[1] Common shares unless indicated otherwise
[2] Shares received from debt restructuring
[3] AbitibiBowater changed its name to Resolute Forest Products Inc.
[4] CompuCredit Holdings changed its name to Atlanticus Holdings Corporation.

Investment Objective and Strategies

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

The Fund seeks to achieve its investment objectives by investing in securities that it believes are undervalued. The Fund will generally be fully invested. A combination of investment strategies will be utilized in managing the portfolio including relative value trades, yield enhancement strategies and interest rate anticipation 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.

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.

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. As of December 31, 2012, the Fund invested approximately 67.7% (2011 – 72.6%) 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 S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

Interest Rate Risk

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

Debt Instruments by Maturity Date:

	2012	**2011**
Less than 1 year	$ 6,241,235	$ 0
1-3 years	$ 9,255,748	$ 12,848,552
3-5 years	$ 7,111,237	$ 9,569,558
Greater than 5 years	$ 8,741,926	$ 16,449,715

As at December 31, 2012, should interest rates have 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 $922,270.

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

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 15.6% (2011 – 19.7%) of the Fund's Net Assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2012, the Net Assets of the Fund would have increased or decreased by approximately $344,000, or 0.8% of the Net Assets, all other factors remaining constant.

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

Foreign Currency Risk

Currencies to which the Fund had exposure as at December 31 are as follows:

2012

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	38,630,806	87.8%

2011

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	41,331,888	82.5%
Euro	234,312	0.5%

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

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 $386,000.

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

CHOU RRSP FUND
(unaudited)

March 15, 2013

Dear Unitholders of Chou RRSP Fund,

After the distribution of $0.10, the net asset value per unit ("NAVPU") of a Series A unit of Chou RRSP Fund at December 31, 2012 was $25.74 compared to $19.27 at December 31, 2011, an increase of 34.2%; during the same period, the S&P/TSX Total Return Index increased 7.2% in Canadian dollars. In $US, a Series A unit of Chou RRSP Fund was up 37.2% while the S&P/TSX Total Return Index returned 9.5%.

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

December 31, 2012 (Series A)	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**
Chou RRSP ($CAN)	34.2%	16.0%	2.8%	5.3%	8.3%
S&P/TSX ($CAN)	7.2%	4.8%	0.8%	9.2%	6.5%
Chou RRSP ($US)[1]	37.2%	17.9%	2.7%	10.2%	11.0%
S&P/TSX ($US)	9.5%	6.9%	0.7%	14.3%	9.1%

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

Factors Influencing the 2012 Results

Overstock.com Inc., International Forest Products Ltd, The Brick Ltd. and the Class A warrants of Bank of America were major positive contributors to the Fund's performance.

The largest equity decliners in 2012 were Rainmaker Entertainment Inc., Resolute Forest Products Inc., Canfor Pulp Products Inc. and Torstar Corporation.

The Fund sold all its equity holdings of E-L Financial Corporation and Fibrek Inc. The Fund added Research In Motion Limited to the portfolio.

The Brick Limited

One of our best deals involved Brick Ltd., a retailer of largely lower-end household furniture, mattresses, appliances and home electronics, which we purchased for the Chou RRSP Fund. We attended a meeting where an executive succinctly described the reasons for its target market: "We tried to go to the middle-of-the-road, and the oncoming traffic killed us."

[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.

Brick Ltd. had a financing/liquidity issue in 2009 and in May of that year, succeeded in raising $120 million to recapitalize its balance sheet, pay off senior notes and partially repay its operating credit facility. We were already impressed with the company and became even more so when the company's founder said he was willing to invest $10 million on the same terms as the other debenture holders. The debt unit consisted of $1,000 principal amount 12% senior secured debentures maturing in five years, and 1,000 Class A Trust Unit purchase warrants. Each warrant entitled the holder to purchase one Class A Trust Unit for a strike price of $1.00, which was very close to the stock's trading price.

We tendered the debentures at $115 (par $100) to the company in 2011.

In 2011, we exchanged our warrants for common shares of Brick Ltd. in a cashless exercise. And in November, Brick announced that Leon's Furniture offered to buy Brick for $5.40 per share in cash. Remember, when we did the deal, the company's common shares (which was a Trust Unit at the time) were trading at $1.00 per share.

When the price of the common shares moved up closer to the $5.40 after the announcement of the Leon's Furniture deal, the Fund's investment in Brick Ltd. amounted to approximately 30% of the assets of the Fund. This shows that when you spot a great deal, concentrate and take advantage of the situation. Opportunities like these appear rarely. Don't waste them by investing one or two percent of your assets. Go big!

What Will Happen if Greece Reverts to the Drachma?

In our last letter, we wrote with regard to investment in the Euro countries and Greece in particular.

"When investors are optimistic of the future, it is hard to find bargains in the market. But introduce some fear and uncertainty and you will find a plethora of bargains. The Eurozone is the perfect environment for finding bargains. For example, there are plenty of Greek companies with fine economics, strong balance sheets and a shareholder friendly management that are selling for less than 4-times after tax earnings. Let's say that Greece, for one reason or another, leaves the Euro and reverts to the drachma. If this currency were then devalued by 50%, that stock would then be valued at 8-times earnings (in Canadian dollars because of the devaluation), which is still very cheap. The same scenario is starting to play out in Spain and Italy."

Our enthusiasm over this is tempered by the fact that the devaluation of the drachma versus the Euro or the Canadian dollar or any of the major currencies may be greater than 80%. We have seen many examples of this happening to international currencies in the past. One example is the Indonesian rupiah during July 1997 to June 1998, when the currency was devalued by about 90% against the U.S. dollar. We saw a similar situation in Russia, from August 1998 to March 1999, when the ruble was devalued by about 78% against the U.S. dollar as well as in Argentina, from January 2002 to June 2002, when the peso was devalued by around 74% against the U.S. dollar. We believe it would be safer and more prudent to buy stocks after any devaluation of the local currency – at least, that is what our research is showing. The key point is that returns of the Chou Funds will be measured in Canadian dollars and not in drachmas. Therefore, substantial currency devaluation is an important factor to consider when investing in troubled countries. The other alternative is to look for companies that are undervalued and also have a substantial operation outside of Greece.

We did buy Trastor Real Estate Investment Co., a Greek real estate firm, for Chou Europe Fund. When we purchased the stock (average cost Euro 0.46), the dividend yield was approximately 20%, the price-to-book value was less than 30% and the company had substantial net cash on the balance sheet. I am happy to say that this purchase has worked out quite well. It is currently trading at Euro 0.71. In Chou Associates Fund, we bought Nokia, the phone manufacturer, at an average cost of $2.28 per share and it is currently trading at $3.43. It is surprising how manic depressive the stock market can be on certain stocks. In the case of Nokia, it was selling way below the value of its patents. The same story can be said of Research in Motion (now called Blackberry). We purchased it at an average cost of $7.12 in Canadian dollars for the Chou RRSP Fund and currently it is trading at $15.40.

Non-Investment (or High Yield) Grade Debt Securities
Non-investment grade debt securities are fully priced and in general, I would stay clear of them. According to JPMorgan Chase, high-yield spreads over comparable Treasuries have continued to narrow, closing at the end of 2012 to approximately 561 basis points, compared to 754 basis points at the end of 2011. Spreads peaked during the 2008 financial crisis to 1,925 basis points. In fact, there is a good chance that these debt securities may now be overvalued, and that the possibility of a large, permanent loss of capital is extremely high. In addition, their prices don't reflect the risks inherent in these debt securities.

The Stock Market
In general, we are not that bullish on the stock market. Aside from a couple of industries like the financial institutions in the U.S. and companies in the retail sector, we are not that comfortable with the prices of many stocks. When an index like the DJIA or the S&P500 is undervalued, you don't put that much emphasis on the macroeconomic factors. We know from history that a free market economy that has an established rule of law will do well in the long run. Think of the last 100 years: we have gone through the Great Depression, two devastating World Wars, numerous recessions (some of them more severe than the others), but still the U.S. and the Canadian economies have done well. But when the market is closer to being fairly valued as it is now, I tend to fret about issues that I would ignore if the stock market was very cheap. Some of the issues that are bothering me are listed below.

Low Interest Rates
One of the dangers of low interest rates is how investors evaluate companies based on the discounted cash flow method. When rates are so low, it does not make sense to use long Treasuries as the discount rate. If you do, you end up with an inflated valuation for any company whose growth rate is higher than the discount rate. In this case, anything above 3.11% (the current 30-year Treasury bond rate) is infinity. As a precaution, and to have some sense of reality, I would plug in an arbitrary 10% for the discount rate.

Total Debt versus GDP
Total debt (government and private) as a percentage of GDP in the Western world is at an all-time high and eventually we will have to deal with this all-encompassing problem. It is hard to fathom how debt will be paid off or dealt with but in the past, governments have resorted to monetizing the debt.

Commodities
When certain asset classes, such as commodities, have had an exponential rise in price, they create imbalances that are not readily visible. Commodities that were in short supply before the price rise are now more abundantly available and mines that were uneconomic before are viable now. But nothing grows straight to the sky. As any good Economics 101 course teaches you, when prices rise

exponentially, demand should fall. However, recent increases have actually brought in a new class of speculators who believe that buying and hoarding the commodity is the way to make money. In addition, a number of countries have pumped in untold amounts of money on infrastructure that's not needed. As an example, I have been saying for years that China's economy is not as healthy as the government wants us to believe. Huge sums of money have been put into building cities and highways, but all remain eerily empty. You have to see it to believe it: empty skyscrapers, empty shopping malls, empty highways and not a living soul in those cities. I would be wary of investing in any company where the price of a commodity plays a significant role in the company making money.

Money Supply

The U.S. money supply has expanded substantially since 2007 regardless of how you measure it (M1, M2 or M3). But the full impact of the expanded money supply has not yet been felt because confidence remains subdued. In fact, the velocity of money has plummeted below its previous mid-1969 level. Losses in confidence are short-term in nature and when confidence does return and the velocity of money returns to more normalized levels, watch out for inflation. I would not buy into any long dated fixed-income instruments that are dependent on interest rates particularly those issued by countries that are aggressively expanding their money supply.

Looking Forward

We remain true to our value-investing roots and until the markets are more undervalued, it is likely that the Fund will have more cash/cash equivalents in its portfolio in the coming year than in equities. But if a true bargain arises, I will not hesitate to buy it.

Other Matters

NAME CHANGE OF THE AUDITORS: As a result of a merger effective March 1, 2012, our auditors Burns Hubley LLP are now known as KPMG LLP. The auditors' report has been signed accordingly.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2012 IRC Annual Report is available on our website www.choufunds.com.

As of March 15, 2013, the NAV of a Series A unit of the Fund was $27.52 and the cash position was 0% of net assets. The Fund is up 6.9% from the beginning of the year. In $US, it is up 4.3%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

CHOU RRSP FUND

STATEMENTS OF NET ASSETS

AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 1,253,782	$ 7,335,601
Accrued interest and dividend income	38,157	193,140
Receivable for units subscribed	30,000	69,989
Investments, at fair value	111,290,818	93,216,011
	112,612,757	100,814,741
LIABILITIES		
Accrued expenses	205,492	169,639
Payable for units redeemed	98,342	358,059
Distributions payable	7,303	22,531
	311,137	550,229
NET ASSETS	$ 112,301,620	$ 100,264,512
NET ASSETS, BY SERIES		
Series A	$ 109,639,802	$ 97,704,359
Series F	2,661,818	2,560,153
	$ 112,301,620	$ 100,264,512
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	4,279,790	5,114,462
Series F	104,004	134,107
NET ASSETS PER UNIT (Note 6)		
Canadian dollars		
Series A	$ 25.62	$ 19.10
Series F	$ 25.59	$ 19.09
U.S. dollars		
Series A	$ 25.76	$ 18.78
Series F	$ 25.73	$ 18.77

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS
OF THE MANAGEMENT COMPANY

Francis Chou

Tracy Chou

CHOU RRSP FUND
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

		2012		2011
INVESTMENT INCOME				
Dividends	$	1,849,742	$	1,590,946
Interest		954,793		2,069,068
Interest from securities lending		-		1,782
		2,804,535		3,661,796
EXPENSES				
Management fees (Note 5)		1,686,629		2,124,876
Custodian fees		153,223		160,595
Filing fees		14,680		14,560
Audit		14,019		13,995
Legal		6,808		-
Foreign withholding taxes		6,765		5,974
Independent Review Committee fees		4,093		4,307
FundSERV fees		3,670		6,444
		1,889,887		2,330,751
NET INVESTMENT INCOME FOR THE YEAR		914,648		1,331,045
NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS				
Transaction costs		(62,415)		(44,045)
Net realized gain on sale of investments		422,277		4,294,858
Change in unrealized appreciation (depreciation) in value of investments		29,450,414		(34,383,770)
		29,810,276		(30,132,957)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	$	30,724,924	$	(28,801,912)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS				
Series A	$	29,968,908	$	(28,056,498)
Series F		756,016		(745,414)
	$	30,724,924	$	(28,801,912)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT				
Series A	$	6.47	$	(5.11)
Series F	$	6.62	$	(5.06)

CHOU RRSP FUND

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
SERIES A		
NET ASSETS, beginning of the year	$ 97,704,359	$ 145,169,805
Increase (decrease) in net assets from operations	29,968,908	(28,056,498)
Proceeds from issue of units	1,057,844	4,126,625
Payments on redemption of units	(19,084,374)	(23,514,853)
Distribution of income to unitholders		
Investment income	(439,019)	(1,491,430)
Reinvested distributions	432,084	1,470,710
NET ASSETS, end of the year	109,639,802	97,704,359
SERIES F		
NET ASSETS, beginning of the year	2,560,153	3,748,582
Increase (decrease) in net assets from operations	756,016	(745,414)
Proceeds from issue of units	48,366	481,056
Payments on redemption of units	(702,349)	(922,260)
Distribution of income to unitholders		
Investment income	(23,373)	(56,273)
Reinvested distributions	23,005	54,462
NET ASSETS, end of the year	2,661,818	2,560,153
TOTAL NET ASSETS, end of the year	$ 112,301,620	$ 100,264,512

CHOU RRSP FUND

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2012

	No. of Shares or Par Value	Cost	Market Value
SHARES*			
Bank of America, warrants, Class A, Jan 16, 2019	836,825	$ 2,984,789	$ 4,519,869
Canfor Pulp Products Inc.	493,900	1,405,445	5,018,024
Clublink Enterprises Limited	193,600	1,077,639	1,597,200
Danier Leather Inc.	679,200	6,453,777	8,286,240
International Forest Products Ltd., Class A	925,500	5,504,044	7,376,235
MEGA Brands Inc.	480,900	4,732,518	4,659,921
MEGA Brands Inc., warrants, Mar 30, 2015	8,987,500	1,177,166	1,258,250
Overstock.com Inc.	715,500	14,906,146	10,184,522
Rainmaker Entertainment Inc.	2,536,800	5,227,610	481,992
Research In Motion Limited	200,000	1,424,170	2,356,000
Resolute Forest Products Inc.**	274,389	5,053,778	3,610,920
Ridley Inc.	313,200	2,511,607	2,881,440
Symetra Financial Corporation	124,000	1,904,897	1,600,987
Taiga Building Products Ltd.	359,700	478,401	269,775
The Brick Ltd.	6,397,000	1,150,000	34,223,949
Torstar Corporation, Class B	1,254,716	27,459,812	9,786,785
TVA Group Inc., Class B	733,128	10,931,044	6,084,962
		94,382,843	104,197,071
BONDS			
Taiga Building Products Ltd., 14.0%, Sep 1, 2020	6,759,168	6,759,168	7,093,747
TOTAL EQUITIES AND BONDS		101,142,011	111,290,818
TRANSACTION COSTS		(478,276)	-
PORTFOLIO TOTAL		$ 100,663,735	$ 111,290,818

* Common shares unless indicated otherwise

** AbitibiBowater changed its name to Resolute Forest Products Inc.

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 company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Risk Management

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

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. As of December 31, 2012, the Fund invested approximately 6.3% (2011 – 6.4%) 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 S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

Interest Rate Risk

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

Debt Instruments by Maturity Date:

	2012	**2011**
Less than 1 year	$ 0	$ 250,665
1-3 years	$ 0	$ 0
3-5 years	$ 0	$ 0
Greater than 5 years	$ 7,093,747	$ 6,122,454

As at December 31, 2012, should interest rates have 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 $118,582.

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

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 92.8% (2011 – 86.6%) of the Fund's Net Assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at December 31, 2012, the Net Assets of the Fund would have increased or decreased by approximately $5,210,000, or 4.6% of the Net Assets, all other factors remaining constant.

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

Foreign Currency Risk

Currencies to which the Fund had exposure as at December 31 are as follow:

2012

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	19,973,514	17.8%

2011

	Financial Instruments ($)	Percentage of NAV (%)
United States Dollar	17,847,005	17.8%

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

As at December 31, 2012, 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 $200,000.

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

1. FORMATION OF CHOU FUNDS

The individual funds comprising the family of Chou Funds (the "Chou Funds" or the "Funds") are open-ended investment mutual fund trusts formed pursuant to Declarations of Trust under the laws of the Province of Ontario. Chou Associates Management Inc. is the Manager and Trustee of the Chou Funds.

The 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

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies used by the Funds:

(a) Use of estimates

These financial statements include estimates and assumptions made by the Manager that may affect the reported amount of assets, liabilities, income and expenses during the reporting period. Actual results could materially differ from those estimates.

(b) Valuation of Investments

In accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", investments are deemed to be held for trading, and are required to be recorded at fair value. The main impact of Section 3855 relates to the determination of the fair value of financial assets listed on an active market using the bid price for a long position and the ask price for a short position instead of the closing prices.

National Instrument 81-106 – Investment Fund Continuous Disclosure ("NI 81-106") requires all investment funds to calculate net asset value for all purposes other than financial statements in accordance with part 14.2. This requirement allows the Funds to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP called "GAAP Net Assets" (or "net assets"), and another called " Transactional NAV" (or "net asset value"). A reconciliation between GAAP Net Assets per unit and Transactional NAVPU is provided in Note 6.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

The fair value of the Funds' investments as at the financial reporting date is determined as follows:

All long securities listed on a recognized public stock exchange are valued at their last bid price at the end of each valuation date. All short securities listed on a recognized public stock exchange are valued at the last ask price on the valuation date. Securities that are traded on an over-the-counter market basis are priced at the last bid price as quoted by a major dealer.

Investments in securities having no quoted market values or in illiquid securities are valued using valuation techniques. Valuation techniques include, but are not limited to, referencing the current value of similar instruments, using recent arm's length market transactions, discounted cash flow analyses or other valuation models.

The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. In a situation where, in the opinion of the Manager, a market quotation for a security is inaccurate, not readily available or does not accurately reflect fair value, the fair value is determined by the Manager.

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

Investments in underlying funds are valued at the series' net asset value per unit. If the net asset value is unavailable, the investment fund holdings are valued using the last published net asset value or at the fair value as determined by the Manager.

Short-term securities are valued using market quotations or amortized costs plus accrued interest, both of which approximate fair value.

Futures are valued using the last bid price for long positions and the last ask price for short positions. The settlement price is used where bid and ask prices are not available.

The fair value of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange established at noon on each valuation date. Under the Funds' fair pricing policy, when the rates of exchange established at 3 p.m. are materially different from the noon exchange rates on a given valuation date, the market value of investments and other assets and liabilities denominated in foreign currencies will be translated at the 3 p.m. exchange rates for that valuation date.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Other Assets and Liabilities

Accrued interest and dividends receivable, receivable for units subscribed, due from brokers and other assets are designated as loans and receivables and are recorded at amortized cost. Similarly, accrued expenses, payable for units redeemed, due to brokers and other liabilities are designated as other financial liabilities and are reported at amortized cost. These balances are short-term in nature and therefore, amortized cost approximates fair value for these assets and liabilities.

(d) Cost of Investments

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. Investment transactions are accounted for as of the trade date.

(e) 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 CICA Handbook Section 3855, transaction costs are expensed and are included in transaction costs in the Statements of Operations.

(f) 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.

(g) Investment Transactions and Income Recognition

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Translation of Foreign Currency

The reporting currency for all the Funds is the Canadian dollar which is the functional currency since subscriptions and redemptions of units are primarily denominated in Canadian dollars. Any currency other than Canadian dollars represents foreign currency to the Funds. All funds offer series to the public in US dollars and the net assets attributed to these units are translated into US dollars at the exchange rate for that valuation day. The Canadian dollar and US dollar series net assets per unit as at the financial reporting date are reported in the Statements of Net Assets.

The fair value of investments and other assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange which is current on the valuation date. Transactions denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions. Realized and unrealized foreign currency gains or losses on investments are included in net realized gain (loss) on sale of investments and change in unrealized appreciation (depreciation) in value of investments in the Statements of Operations respectively. Realized and unrealized foreign currency gains or losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in net realized gain on sale of investments or change in unrealized appreciation (depreciation) in value of investments.

(i) Derivative Transactions

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

Options

The premium paid for purchased options is included in the "Investments, at fair value" on the Statements of Net Assets. The unrealized gain or loss is reflected in the Statements of Operations in "Unrealized gain (loss) on investments".

The premium received upon writing an option on futures or an over-the-counter option is recorded at cost in "Investments, at fair value" in the Statements of Net Assets. As long as the position of the written option is maintained, the liability for written options is revalued at an amount equal to the current market value of the option, which would have the effect of closing the position. Any gain or loss resulting from revaluation is reflected in the Statements of Operations in "Net realized and unrealized gain (loss) on investments".

The gain or loss on sale or expiry of options is reflected in the Statements of Operations in "Income (loss) from derivatives".

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) 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 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.

(k) Valuation of Fund Units

The net asset value per unit of each series of units of each Fund is computed by dividing the net asset value of a series of units by the total number of units of the series outstanding at the time. The net asset value per unit is determined at the close of business each Friday.

(l) Securities Lending

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the Statement of Operations of the Funds and is recognized on an accrual basis.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Manager of the Funds seeks to minimize these risks by managing the security portfolios of the Funds on a daily basis according to market events and the investment objectives of the Funds. CICA Handbook Section 3862 and Section 3863 disclosures that are specific to each of the Funds are presented in the Discussion on Financial Risk Management under the Statement of Investments. The sensitivity analysis shown in the Discussion on Financial Risk Management may differ from actual results and the difference could be significant.

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

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, continued

(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 Fund's main credit risk concentration is in debt securities and trading derivative instruments which are disclosed in the respective Fund's Statement 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.

(b) Interest Rate Risk

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

(c) Currency Risk

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

(d) Liquidity Risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligation 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.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, continued

(e) Other Price Risk

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

4. UNITHOLDER CAPITAL

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

	Series A		Series F	
	Dec-12	**Dec-11**	**Dec-12**	**Dec-11**
CHOU ASSSOCIATES FUND				
Units outstanding, beginning of the year	5,561,339	6,163,099	390,159	397,040
Add: Units issued during the year	91,413	197,218	33,915	74,172
Deduct: Units redeemed during the year	(846,365)	(901,683)	(126,569)	(89,471)
Units outstanding before income distribution	4,806,387	5,458,634	297,505	381,741
Add: Units issued on reinvested income	145,164	102,705	8,902	8,418
Units outstanding, end of the year	4,951,551	5,561,339	306,407	390,159
CHOU ASIA FUND				
Units outstanding, beginning of the year	3,348,296	3,970,464	158,974	211,782
Add: Units issued during the year	17,363	138,514	8,226	32,605
Deduct: Units redeemed during the year	(655,142)	(856,548)	(88,609)	(89,901)
Units outstanding before income distribution	2,710,517	3,252,430	78,591	154,486
Add: Units issued on reinvested income	1,227	95,866	43	4,488
Units outstanding, end of the year	2,711,744	3,348,296	78,634	158,974

4. UNITHOLDER CAPITAL, continued

	Series A		Series F	
	Dec-12	**Dec-11**	**Dec-12**	**Dec-11**
CHOU EUROPE FUND				
Units outstanding, beginning of the year	964,369	1,003,677	3,858	120,856
Add: Units issued during the year	34,875	28,077	2,103	-
Deduct: Units redeemed during the year	(93,724)	(93,684)	(3,858)	(117,067)
Units outstanding before income distribution	905,520	938,070	2,103	3,789
Add: Units issued on reinvested income	32,369	26,299	77	69
Units outstanding, end of the year	937,889	964,369	2,180	3,858
CHOU BOND FUND				
Units outstanding, beginning of the year	5,091,719	5,575,084	1,181,760	1,559,793
Add: Units issued during the year	159,529	1,026,135	46,671	171,483
Deduct: Units redeemed during the year	(1,161,556)	(1,959,559)	(433,681)	(653,183)
Units outstanding before income distribution	4,089,692	4,641,660	794,750	1,078,093
Add: Units issued on reinvested income	344,421	450,059	66,801	103,667
Units outstanding, end of the year	4,434,113	5,091,719	861,551	1,181,760
CHOU RRSP FUND				
Units outstanding, beginning of the year	5,114,462	5,910,060	134,107	152,729
Add: Units issued during the year	47,585	167,531	2,315	19,748
Deduct: Units redeemed during the year	(899,042)	(1,039,466)	(33,313)	(41,199)
Units outstanding before income distribution	4,263,005	5,038,125	103,109	131,278
Add: Units issued on reinvested income	16,785	76,337	895	2,829
Units outstanding, end of the year	4,279,790	5,114,462	104,004	134,107

5. RELATED PARTY TRANSACTIONS

Management Fees

Chou Associates Management Inc. (“the Manager”) manages the Chou 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:

	2012	**2011**
Chou Associates Fund	$ 6,859,935	$ 8,050,863
Chou Asia Fund	711,696	875,304

5. RELATED PARTY TRANSACTIONS, continued

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

	2012	2011
Chou Europe Fund	-	-
Chou Bond Fund	583,768	821,221
Chou RRSP Fund	1,686,629	2,124,876

As at December 31, included in accrued expenses of each fund are the following amounts due to Chou Associates Management Inc., for management fees payable:

	2012	2011
Chou Associates Fund	$ 589,992	$ 562,842
Chou Asia Fund	52,975	66,745
Chou Europe Fund	-	-
Chou Bond Fund	46,673	53,393
Chou RRSP Fund	156,585	137,344

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.

6. RECONCILIATION OF TRANSACTIONAL NAV TO GAAP NET ASSETS

The table below provides a comparison of the GAAP Net Assets per unit and Transactional NAV per unit. The primary reason for the difference between the GAAP Net Assets per unit and Transactional NAV per unit is described in Note 2.

		Net Asset Value ($)			Net Asset Value per Unit ($)		
	Series	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Chou Associates	A	402,049,928	66,996	402,116,924	81.20	0.01	81.21
Fund	F	24,814,039	4,136	24,818,175	80.98	0.02	81.00
Chou Asia	A	36,646,829	(50,784)	36,596,045	13.51	(0.01)	13.50
Fund	F	1,070,529	(1,482)	1,069,047	13.61	(0.01)	13.60
Chou Europe	A	7,802,836	(27,741)	7,775,095	8.32	(0.03)	8.29
Fund	F	18,322	(65)	18,257	8.41	(0.04)	8.37
Chou Bond	A	36,850,270	(28,979)	36,821,291	8.31	(0.01)	8.30
Fund	F	7,180,447	(5,647)	7,174,800	8.33	-	8.33
Chou RRSP	A	110,169,908	(530,106)	109,639,802	25.74	(0.12)	25.62
Fund	F	2,674,627	(12,809)	2,661,818	25.72	(0.13)	25.59

7. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the year ended December 31, 2012 and for the year ended December 31, 2011 are as follows:

	2012	**2011**
Chou Associates Fund	$ 502,554	$ 414,124
Chou Asia Fund	22,641	27,693
Chou Europe Fund	449	1,661
Chou Bond Fund	4,288	5,619
Chou RRSP Fund	62,415	44,045

8. SECURITIES LENDING

The Funds have entered into a securities lending program with Citibank N.A. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include obligations of other governments with appropriate credit ratings. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at December 31, 2012 and December 31, 2011 are as follows:

2012	Market Value of Securities on Loan	Market Value of Collateral Received
Chou Associates Fund	$ 46,492,522	$ 48,290,700

2011	Market Value of Securities on Loan	Market Value of Collateral Received
Chou Associates Fund	$ 50,618,523	$ 52,332,198

9. FAIR VALUE MEASUREMENT

In June 2009, the Canadian Accounting Standards Board incorporated amendments to International Financial Reporting Standards 7, Financial Instruments: Disclosures, into CICA Handbook Section 3862, "Financial Instruments – Disclosures". The amendments expand the disclosures required in respect of fair value measurements recognized in the financial statements. The fair value hierarchy has the following levels:

- 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)
- 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.

As at December 31, 2012

Chou Associates Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities - Long	$ 302,339,894	$ -	$ 1,521,775	$ 303,861,669
Bonds	-	37,243,089	-	37,243,089
	302,339,894	37,243,089	1,521,775	341,104,758
Options - Short	-	-	-	-
Total	**$ 302,339,894**	**$ 37,243,089**	**$ 1,521,775**	**$ 341,104,758**

As at December 31, 2011

Chou Associates Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities - Long	$ 276,024,083	$ -	$ 2,010,716	$ 278,034,799
Bonds	-	55,289,222	13,912	55,303,134
	276,024,083	55,289,222	2,024,628	333,337,933
Options - Short	-	-	-	-
Total	**$ 276,024,083**	**$ 55,289,222**	**$ 2,024,628**	**$ 333,337,933**

During the year, there were no significant transfers between level 1, level 2 and level 3.

Fair value measurements using level 3 inputs:	**Equities – Long**	**Bonds**	**Total**
Balance at December 31, 2011	$ 2,010,716	$ 13,912	$ 2,024,628
Investments purchased during the year	-	-	-
Investments sold during the year	(568,236)	(2,469)	(570,705)
Net transfer in (out) during the year	-	-	-
Net realized gain (loss) on sale of investments	391,699	2,469	394,168
Change in unrealized appreciation (depreciation) in value of investments	(312,404)	(13,912)	(326,316)
Balance at December 31, 2012	**$ 1,521,775**	**$ -**	**$ 1,521,775**

9. FAIR VALUE MEASUREMENT, continued

As at December 31, 2012

Chou Asia Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 20,315,349	$ -	$ -	$ 20,315,349
Bonds	-	-	-	-
	20,315,349	-	-	20,315,349
Options - Short	-	-	-	-
Total	**$ 20,315,349**	**$ -**	**$ -**	**$ 20,315,349**

As at December 31, 2011

Chou Asia Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 30,504,004	$ -	$ -	$ 30,504,004
Bonds	-	-	-	-
	30,504,004	-	-	30,504,004
Options - Short	-	-	-	-
Total	**$ 30,504,004**	**$ -**	**$ -**	**$ 30,504,004**

During the year, there were no significant transfers between level 1, level 2 and level 3.

As at December 31, 2012

Chou Europe Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 6,215,521	$ -	$ -	$ 6,215,521
Bonds	-	-	-	-
	6,215,521	-	-	6,215,521
Options - Short	-	-	-	-
Total	**$ 6,215,521**	**$ -**	**$ -**	**$ 6,215,521**

As at December 31, 2011

Chou Europe Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 5,587,689	$ -	$ -	$ 5,587,689
Bonds	-	864,131	-	864,131
	5,587,689	864,131	-	6,451,820
Options - Short	-	-	-	-
Total	**$ 5,587,689**	**$ 864,131**	**$ -**	**$ 6,451,820**

During the year, there were no significant transfers between level 1, level 2, and level 3.

9. FAIR VALUE MEASUREMENT, continued

As at December 31, 2012

Chou Bond Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 6,760,817	$ 118,833	$ -	$ 6,879,650
Bonds	-	31,350,145	-	31,350,145
	6,760,817	31,468,978	-	38,229,795
Options - Short	-	-	-	-
Total	**$ 6,760,817**	**$ 31,468,978**	**$ -**	**$ 38,229,795**

As at December 31, 2011

Chou Bond Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 9,239,932	$ 604,004	$ -	$ 9,843,936
Bonds	-	38,867,825	-	38,867,825
	9,239,932	39,471,829	-	48,711,761
Options - Short	-	-	-	-
Total	**$ 9,239,932**	**$ 39,471,829**	**$ -**	**$ 48,711,761**

During the year, there were no significant transfers between level 1, level 2 and level 3.

As at December 31, 2012

Chou RRSP Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 104,197,071	$ -	$ -	$ 104,197,071
Bonds	-	7,093,747	-	7,093,747
	104,197,071	7,093,747	-	111,290,818
Options - Short	-	-	-	-
Total	**$ 104,197,071**	**$ 7,093,747**	**$ -**	**$ 111,290,818**

As at December 31, 2011

Chou RRSP Fund	Level 1	Level 2	Level 3	Total
Equities - Long	$ 82,395,391	$ 4,447,502	$ -	$ 86,842,893
Bonds	-	6,122,454	250,664	6,373,118
	82,395,391	10,569,956	250,664	93,216,011
Options - Short	-	-	-	-
Total	**$ 82,395,391**	**$ 10,569,956**	**$ 250,664**	**$ 93,216,011**

During the year, there were no significant transfers between level 1, level 2 and level 3.

9. FAIR VALUE MEASUREMENT, continued

Fair value measurements using level 3 inputs:	**Equities – Long**	**Bonds**	**Total**
Balance at December 31, 2011	$ -	$ 250,664	$ 250,664
Investments purchased during the year	-	-	-
Investments sold during the year	-	(44,480)	(44,480)
Net transfer in (out) during the year	-	-	-
Net realized gain (loss) on sale of investments	-	44,480	44,480
Change in unrealized appreciation (depreciation) in value of investments	-	(250,664)	(250,664)
Balance at December 31, 2012	**$ -**	**$ -**	**$ -**

10. TAXES

(a) 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 fund are redeemed. Sufficient net income and realized capital gains of the Chou Funds, have been, or will be distributed to the unitholders such that no tax is payable by the Chou Funds and accordingly no provision for taxes has been made in the financial statements.

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

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

Chou Associates Fund	$ 16,555,051
Chou Asia Fund	$71,701
Chou Europe Fund	$ 3,484,332
Chou Bond Fund	$ 12,789,600
Chou RRSP Fund	$ 28,721,215

(b) Harmonized Sales Tax

Effective July 1, 2010, the Government of Ontario and the Government of British Columbia replaced the provincial sales tax (“PST”) with a single harmonized sales tax (“HST”). The HST combines the federal goods and services tax (“GST”) rate of 5% with the respective PST rate. The harmonization results in an HST rate of 13% in Ontario.

10. TAXES, continued

Investment funds in Canada are required to calculate the HST rate using specific rules. The specific rules and guidance require HST to be calculated using the residency of unitholders and the current value of their interests, rather than the physical location of the Fund Manager.

The new HST has resulted in higher overall management expense ratios as management fees and certain other expenses charged to the Fund are now subject to the new HST.

11. CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the Fund will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Fund's adoption of IFRS.

The criteria contained within IAS 32 Financial Instruments: Presentation may require unitholders' equity to be classified as a liability within the Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a Statement of Cash Flows in the financial statements. Overall, enhanced disclosure requirements are expected.

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

CHOU ASIA FUND

Period ended	Value of initial $10,000 investment	Value of cumulative reinvested capital distributions	Value of cumulative reinvested dividends	Total value of shares
Dec.31, 2003	$10,000	0	0	10,000
Dec.31, 2004	11,768	23	59	11,850
Dec.31, 2005	12,323	59	296	12,678
Dec.31, 2006	14,082	67	449	14,598
Dec.31, 2007	15,122	1,173	677	16,972
Dec.31, 2008	11,917	1,193	869	13,979
Dec.31, 2009	14,235	1,426	1,354	17,015
Dec.31, 2010	14,448	2,938	1,400	18,786
Dec.31, 2011	13,390	3,236	1,305	17,931
Dec.31, 2012	13,144	3,176	1,289	**$17,609**

CHOU EUROPE FUND

Period ended	Value of initial $10,000 investment	Value of cumulative reinvested capital distributions	Value of cumulative reinvested dividends	Total value of shares
Dec.31, 2003	$10,000	0	0	10,000
Dec.31, 2004	10,315	0	46	11,361
Dec.31, 2005	12,384	0	266	12,650
Dec.31, 2006	13,386	138	478	14,002
Dec.31, 2007	11,033	113	735	11,881
Dec.31, 2008	5,842	60	753	6,655
Dec.31, 2009	7,142	73	1,747	8,962
Dec.31, 2010	7,004	72	1,809	8,885
Dec.31, 2011	6,479	67	1,905	8,451
Dec.31, 2012	7,954	82	2,717	**$10,753**

CHOU BOND FUND

Period ended	Value of initial $10,000 investment	Value of cumulative reinvested capital distributions	Value of cumulative reinvested dividends	Total value of shares
Dec.31, 2005	$10,000	0	0	10,000
Dec.31, 2006	11,809	61	330	12,200
Dec.31, 2007	11,078	57	735	11,870
Dec.31, 2008	6,131	32	1,233	7,396
Dec.31, 2009	8,230	42	2,262	10,534
Dec.31, 2010	10,425	54	3,501	13,980
Dec.31, 2011	7,734	40	3,634	11,408
Dec.31, 2012	8,038	41	4,805	**$12,884**

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

CHOU RRSP FUND

Period ended	Value of initial $10,000 investment	Value of cumulative reinvested capital distributions	Value of cumulative reinvested dividends	Total value of shares
Dec.31, 1986	$10,000	0	0	10,000
Dec.31, 1987	9,980	187	650	10,818
Dec.31, 1988	10,709	553	1,018	12,281
Dec.31, 1989	11,530	1,308	1,512	14,350
Dec.31, 1990	9,272	1,314	2,136	12,722
Dec.31, 1991	9,342	1,324	2,618	13,284
Dec.31, 1992	10,069	1,427	3,004	14,500
Dec.31, 1993	11,616	1,646	3,465	16,727
Dec.31, 1994	10,131	1,436	3,394	14,961
Dec.31, 1995	11,764	1,667	4,377	17,808
Dec.31, 1996	14,335	2,032	5,368	21,735
Dec.31, 1997	19,953	4,048	8,740	32,741
Dec.31, 1998	17,421	12,259	9,126	38,806
Dec.31, 1999	15,467	11,914	8,836	36,217
Dec.31, 2000	16,931	13,580	11,677	42,188
Dec.31, 2001	19,135	16,493	13,742	49,370
Dec.31, 2002	22,735	24,861	17,499	65,095
Dec.31, 2003	24,871	28,059	19,728	72,658
Dec.31, 2004	27,896	32,038	22,429	82,362
Dec.31, 2005	31,259	37,164	26,871	95,294
Dec.31, 2006	33,326	39,622	31,531	104,479
Dec.31, 2007	27,859	38,841	28,117	94,817
Dec.31, 2008	13,510	18,836	22,283	54,629
Dec.31, 2009	16,995	23,693	29,130	69,818
Dec.31, 2010	24,312	33,895	44,160	102,367
Dec.31, 2011	18,981	26,463	35,705	81,150
Dec.31, 2012	25,361	35,358	48,141	**$108,860**

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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