

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2010

CHOU ASSOCIATES FUND

This annual management report of fund performance contains financial highlights; it does not contain the complete financial statements of the Fund. You can obtain on request at no cost a copy of the interim or annual financial statements by calling Toll-free: 1-888-357-5070, or by writing to us at 110 Sheppard Ave. East, Suite 301, Box 18, Toronto, Ontario M2N 6Y8. The Fund's complete financial statements are posted on our website at www.choufunds.com and SEDAR at www.sedar.com.

Unitholders may also contact us as above to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest, and the risks detailed from time to time in the Fund's Simplified Prospectus. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the family of Chou Funds does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Chou Associates Management Inc. ("the Manager") manages the overall business of the Fund, including selection of the securities in the Fund's portfolio and promoting sales of the Fund's units. For the purposes of this document, the terms Chou Associates Management Inc. and "the Manager" are interchangeable. Full contact information is located at the end of this report.

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Management Discussion of Fund Performance

Investment Objective and Strategies

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of US 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 strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investments in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Risk

The risks of investing in the Fund are disclosed in the Fund's most recently filed Simplified Prospectus.

For the reporting year, there were no material changes that affected the Fund's overall level of risk.

As at December 31, 2010, Fairfax Financial Holdings held 22.8% of the units of the Fund. If Fairfax redeems its units, a significant portion of the Fund's investments will have to be liquidated in order to effect this transaction. The timing of such liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such liquidation.

Results of Operations

For the year ended December 31, 2010, Chou Associates Fund (the "Fund") returned 19.2% for Series A units and 19.8% for Series F units while the S&P 500 Total Return Index returned 8.3% in Canadian dollars. In \$US, the Fund returned 25.5% for Series A units and 26.1% for Series F units while the S&P 500 Total Return Index returned 15.0%.

The strength of the Canadian dollar against the U.S. dollar had a negative impact on the results of the Fund. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2009, one U.S. dollar was worth approximately \$1.05 Cdn, whereas one year later, on December 31, 2010, one U.S. dollar was worth approximately \$0.99 Cdn. Even if the price of an American security remained the same in 2010, it would have nonetheless shown a depreciation of roughly 5.7% at year end when priced in Canadian dollars.

During the first half of 2010, stock markets were extremely volatile. The recovery in the stock market continued early in the year and stalled in the second quarter as investors worried about sovereign debt issues in Europe and the prospect for a "double-dip" recession in the United States.

The last six months of 2010 ushered in strong gains for the stock market on the heels of an accelerating economic recovery in the United States, a possible resolution of the European debt crisis, and strong corporate earnings. In addition, capital markets were accessible and companies were able to issue debt at very favorable rates. Despite all the positives, several areas of concern remain, such as large local, state and federal budget deficits in the United States, inflationary pressures (particularly in emerging markets) and sovereign debt concerns in both Europe and Japan. These concerns may lead to continued market volatility and provide us with attractive investment opportunities.

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Positive contributors to the Fund's performance were International Coal Group, King Pharmaceuticals, Watson Pharmaceuticals, Valeant Pharmaceuticals, Overstock.com, Primus Telecommunications and Abitibi-Consolidated debts.

Securities that declined the most in 2010 were Media General, Sears Holdings, Sanofi-Aventis, and Level 3 Communications debts.

The Fund added Bank of America Class A warrants and Wells Fargo warrants to the portfolio.

On the sell side, the Fund sold all its holdings in the following securities: Boskalis Westminster, Qwest Communications, RCN Corporation, Utah Medical Products, UTStarcom, K-Swiss Inc. and the debt securities of International Coal and Interpublic Group.

The McClatchy Company offered to purchase for cash its 15.75% senior notes maturing 2014. The Fund tendered all The McClatchy Company 15.75% senior notes. For each \$1,000 of principal, we received \$1,338.75 in cash.

Following the adoption of the Plan of Liquidation by Olympus Re Holdings shareholders in 2007, the company made its fourth redemption in January 2010 for \$2.083 per share.

Biovail and Valeant Pharmaceuticals completed their merger in September 2010. Biovail changed its name to Valeant Pharmaceuticals.

During the third week of December 2010, Abitibi-Consolidated, Inc. emerged from bankruptcy and the majority of the bonds that we were holding were converted into AbitibiBowater common shares on the initial distribution date. Supplemental interim distributions of the shares held in reserve will be distributed pending settlements with disputed claims. For various Abitibi-Consolidated debts we had in the portfolio, we received 1,353,666 AbitibiBowater shares.

For 2010, we received \$930,430 income from our securities lending program which started in September.

For the various covered call options the Fund engaged in during the year, it received total income of \$2,305,204. As of December 31, 2010, we had covered call options on Mannkind with strike prices of \$7, \$10 and \$11. The maturity date for all Mannkind covered call options is February 18, 2011. We also held \$5 covered call options on Sprint and \$20 covered call options on Valeant Pharmaceuticals, both maturing on January 21, 2011.

We did not enter into any foreign currency contracts in 2010.

Net redemptions for the year were approximately \$55,132,000 for Series A units and \$1,825,000 for Series F units. Our average month-end cash position for the year was 4.4% of net assets.

Recent Developments

Harmonized Sales Tax (HST)

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.

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

Changeover to International Financial Reporting Standards

In accordance with the Canadian Accounting Standards Board proposals, effective January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. However, in January 2011, the Canadian Accounting Standards Board approved a deferral of the effective date for the changeover to IFRS for investment funds to January 1, 2013.

The Manager has already initiated the process of developing its IFRS changeover plan by performing an impact assessment and identifying differences between current Canadian GAAP and IFRS. The process of evaluating the potential impact of IFRS on the financial statements is ongoing as the International Accounting Standards Board and the Canadian Accounting Standards Board continue to issue new standards and recommendations.

The Manager will continue to evaluate potential changes to the financial statements along with the impact on accounting policies, business functions, information technology and internal controls.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager expects that the impact of IFRS on the Fund's financial statements will be additional disclosures and potentially different presentation of certain items. Further, the value used to determine the price of the Fund's units for purchase and redemption by clients (Transactional NAV) is not expected to be affected.

Related Party Transactions

The Manager manages the overall business of the Fund, including selection of the securities in the Fund's portfolio, and promoting sales of the Fund's units.

The Manager is also the trustee of the Fund. When you invest in the Fund, you are buying units of a trust. The trustee holds actual title to the property in the Fund - the cash and portfolio securities - on your behalf.

Citibank Canada is the custodian of the Fund and has physical custody of the securities in the Fund's portfolio.

Citigroup Fund Services Canada is the recordkeeper of the Fund. The recordkeeper provides or arranges for the maintenance of all unitholder records, the processing of purchases and redemption orders, the processing of distributions, and the issuance of investor account statements and annual tax reporting information for the Fund.

There were no transactions with related parties except in the capacities set out above.

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Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended December 31, 2010 and prior years as applicable.

The Fund's Net Assets per Unit ⁽¹⁾ Series A

	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
Net assets, beginning of year	\$ 68.34	\$ 53.78	\$ 79.87	\$ 91.48	\$ 78.22
Increase (decrease) from operations					
Total revenue	\$ 2.49	\$ 2.44	\$ 4.13	\$ 4.07	\$ 2.91
Total expenses	(1.37)	(1.10)	(1.42)	(1.56)	(1.51)
Realized gains (losses) for the year	4.92	(8.17)	(3.93)	(0.12)	3.29
Unrealized gains (losses) for the year	6.91	22.54	(21.97)	(12.44)	10.76
Total increase (decrease) from operations ⁽²⁾	\$ 12.95	\$ 15.71	\$ (23.19)	\$ (10.05)	\$ 15.45
Distributions					
From income (excluding dividends)	\$ 0.62	\$ 1.29	\$ 2.35	\$ 2.19	\$ 0.96
From dividends	0.09	0.24	0.23	0.12	0.30
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	\$ 0.71	\$ 1.53	\$ 2.58	\$ 2.31	\$ 1.26
Net assets at December 31 of year shown	\$ 80.73	\$ 68.34	\$ 53.78	\$ 79.87	\$ 91.65
Net assets at December 31 of year shown in \$US	\$ 81.20	\$ 65.31	\$ 44.13	\$ 80.76	\$ 78.65

Ratios and Supplemental Data Series A

	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
Total net asset value (000's) ⁽⁴⁾	\$ 498,540	\$ 469,714	\$ 411,198	\$ 643,874	\$ 614,044
Number of units outstanding ⁽⁴⁾	6,163,099	6,861,528	7,620,577	8,051,058	6,700,136
Management expense ratio ⁽⁵⁾	1.79%	1.76%	1.73%	1.70%	1.74%
Management expense ratio before waivers or absorptions	1.79%	1.76%	1.73%	1.70%	1.74%
Trading expense ratio ⁽⁶⁾	0.13%	0.05%	0.04%	0.07%	0.03%
Portfolio turnover rate ⁽⁷⁾	11.29%	13.73%	21.58%	16.61%	14.60%
Net asset value per unit	\$ 80.89	\$ 68.46	\$ 53.96	\$ 79.97	\$ 91.65

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The Fund's Net Assets per Unit ⁽¹⁾ Series F

	Dec.31 2010	Dec.31 2009	Dec.31 2008	Dec.31 2007	Dec.31 2006
Net assets, beginning of year	\$ 68.22	\$ 53.64	\$ 79.58	\$ 91.23	\$ 78.22
Increase (decrease) from operations					
Total revenue	\$ 2.48	\$ 2.48	\$ 4.11	\$ 4.03	\$ 6.31
Total expenses	(0.97)	(0.79)	(1.02)	(1.08)	(1.20)
Realized gains (losses) for the year	5.08	(8.62)	(3.63)	0.05	4.23
Unrealized gains (losses) for the year	6.94	21.76	(22.16)	(13.41)	7.26
Total increase (decrease) from operations ⁽²⁾	\$ 13.53	\$ 14.83	\$ (22.70)	\$ (10.41)	\$ 16.60
Distributions					
From income (excluding dividends)	\$ 1.04	\$ 1.49	\$ 2.63	\$ 2.72	\$ 1.39
From dividends	0.14	0.28	0.26	0.15	0.44
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	\$ 1.18	\$ 1.77	\$ 2.89	\$ 2.87	\$ 1.83
Net assets at December 31 of year shown	\$ 80.51	\$ 68.22	\$ 53.64	\$ 79.58	\$ 91.40
Net assets at December 31 of year shown in \$US	\$ 80.98	\$ 65.20	\$ 44.01	\$ 80.46	\$ 78.45

Ratios and Supplemental Data Series F

	Dec.31 2010	Dec.31 2009	Dec.31 2008	Dec.31 2007	Dec.31 2006
Total net asset value (000's) ⁽⁴⁾	\$ 32,030	\$ 28,636	\$ 30,840	\$ 53,194	\$ 36,142
Number of units outstanding ⁽⁴⁾	397,040	419,050	573,132	667,640	395,408
Management expense ratio ⁽⁵⁾	1.25%	1.24%	1.20%	1.17%	1.20%
Management expense ratio before waivers or absorptions	1.25%	1.24%	1.20%	1.17%	1.20%
Trading expense ratio ⁽⁶⁾	0.13%	0.05%	0.04%	0.07%	0.03%
Portfolio turnover rate ⁽⁷⁾	11.29%	13.73%	21.58%	16.61%	14.60%
Net asset value per unit	\$ 80.67	\$ 68.34	\$ 53.81	\$ 79.67	\$ 91.40

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were reinvested in additional units of the Fund or paid in cash upon request.

⁽⁴⁾ This information is provided as at December 31 of the year end shown and is rounded to the nearest thousand.

⁽⁵⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period. The Manager may, at its discretion, waive or absorb certain operating expenses. MER includes the waiver or absorption by the Manager of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by the Manager.

⁽⁶⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the period.

⁽⁷⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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Management Fees

The Manager manages the Fund. The Manager is entitled to an investment management fee calculated as a percentage of the market value of the net assets equal to 0.125% per month for Series A units and 0.083% per month for Series F units. The Manager pays 50 basis points per year trailer fees to dealers out of management fees for Series A units. There is no trailer fee paid out for Series F units.

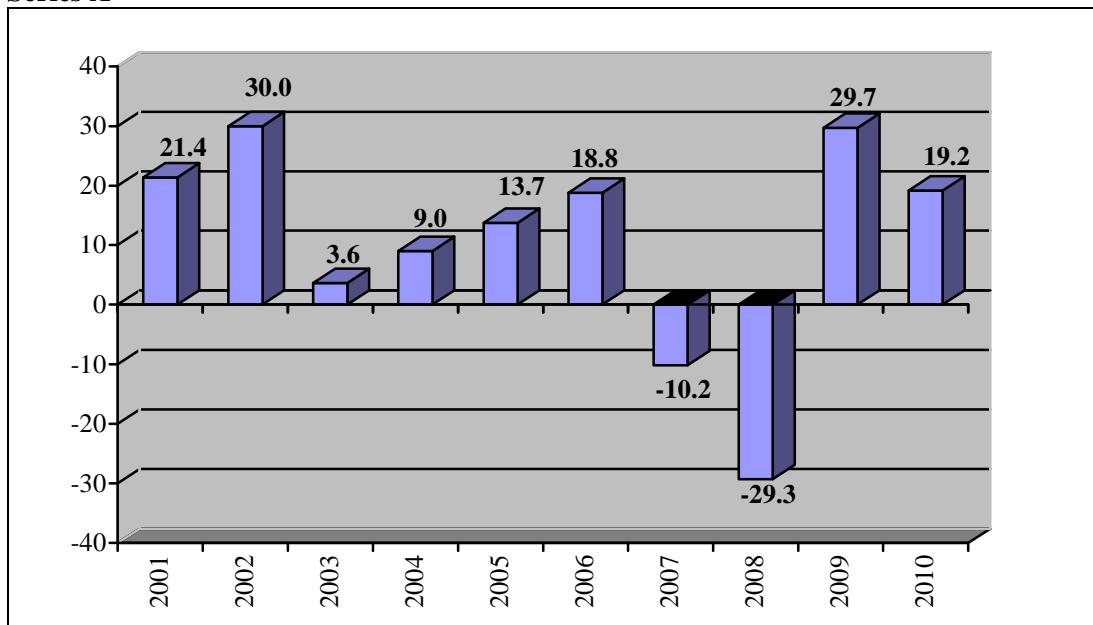
Past Performance

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

Year-by-Year Returns

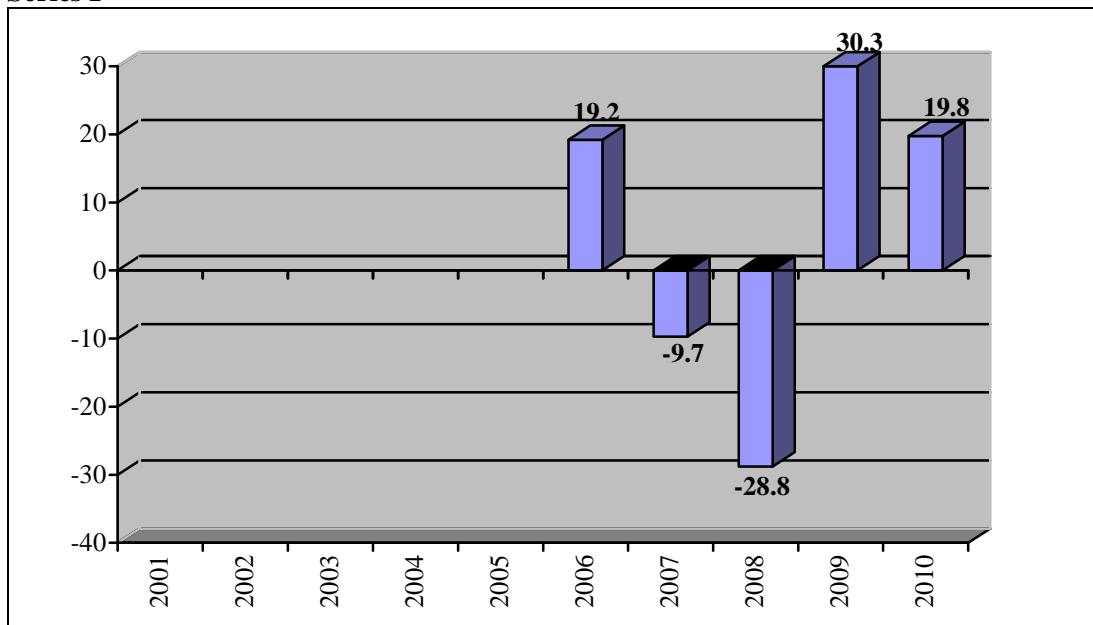
The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to year.

Series A



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Series F



Annual Compound Returns

The following tables ⁽¹⁾ show the annual compound total return for Series A and Series F units of Chou Associates Fund. Below each return is a benchmark comparison.

Series A

December 31, 2010	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years	Since Inception
Associates Fund	19.2%	3.0%	3.1%	9.0%	11.2%	11.5%
S&P 500 (\$CAN)	8.3%	-2.8%	-0.9%	-2.7%	4.5%	7.9%

Series F

December 31, 2010	Past Year	Past 3 Years	Past 5 Years	Since Inception
Associates Fund	19.8%	3.6%	3.6%	4.5%
S&P 500 (\$CAN)	8.3%	-2.8%	-0.9%	-0.4%

⁽¹⁾Tables assume the reinvestment of all dividends.

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Summary of Investment Portfolio as at December 31, 2010

Portfolio by Category

Health Care	29.0%
Financials	18.4%
Telecommunications	17.4%
Consumer Services	12.9%
Basic Material	9.5%
Industrials	1.3%
Net Cash & Equivalents	<u>11.5%</u>
Total Portfolio	100.0%

Total Holdings

(excluding cash equivalents)

King Pharmaceuticals Inc.	13.7%
Level 3 Communications Inc. debts	7.7%
Watson Pharmaceuticals Inc.	6.2%
AbitibiBowater Inc.	6.0%
Overstock.com Inc. shares & debts	5.9%
Bank of America Corporation warrants, Class A	4.9%
Sprint Nextel Corporation	4.9%
Sears Holdings Corporation	4.6%
Primus Telecommunications Group Inc. shares & debts	4.5%
Berkshire Hathaway Inc., Class A	4.3%
Flagstone Reinsurance Holdings Ltd.	3.5%
International Coal Group Inc.	3.5%
Valeant Pharmaceuticals International Inc.	3.4%
Mannkind Corporation	3.3%
Global Crossing (UK) Finance PLC debts	3.1%
Sanofi-Aventis ADR	2.4%
Wells Fargo and Company warrants	2.1%
USG Corporation	1.3%
Media General Inc., Class A	1.0%
Gannett Company Inc.	0.9%
Olympus Re Holdings Ltd.	0.4%
Office Depot Inc.	0.4%
XO Holdings Inc.	0.4%
Abitibi-Consolidated Inc. debt stubs	0.1%
International Automotive Group North America	<u>0.0%</u>
Total Holdings	88.5%

The Summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. The next quarterly update as at March 31, 2011 will be in the Quarterly Portfolio Disclosure and will be posted on our website www.choufunds.com on or before May 31, 2011.

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