

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

**SEMI-ANNUAL REPORT 2017**

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

**CHOU ASSOCIATES FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,502
Dec.31, 1988	12,001
Dec.31, 1989	14,244
Dec.31, 1990	12,722
Dec.31, 1991	15,681
Dec.31, 1992	18,817
Dec.31, 1993	21,863
Dec.31, 1994	21,300
Dec.31, 1995	27,904
Dec.31, 1996	34,235
Dec.31, 1997	48,035
Dec.31, 1998	59,187
Dec.31, 1999	53,489
Dec.31, 2000	57,967
Dec.31, 2001	70,397
Dec.31, 2002	91,504
Dec.31, 2003	94,773
Dec.31, 2004	103,319
Dec.31, 2005	117,462
Dec.31, 2006	139,511
Dec.31, 2007	125,258
Dec.31, 2008	88,553
Dec.31, 2009	114,854
Dec.31, 2010	136,916
Dec.31, 2011	113,776
Dec.31, 2012	144,446
Dec.31, 2013	204,142
Dec.31, 2014	228,754
Dec.31, 2015	212,854
Dec.31, 2016	206,905
June 30, 2017	<b><u>\$212,862</u></b>

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

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

## PERFORMANCE OF THE FUNDS

Six months ended June 30, 2017 (unaudited)

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### **Chou Associates Fund**

Series A \$CAN	2.9%
Series A \$US	6.5%

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Series F \$CAN	3.2%
Series F \$US	6.8%

### **Chou Asia Fund**

Series A \$CAN	9.1%
Series A \$US	13.0%

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Series F \$CAN	9.5%
Series F \$US	13.3%

### **Chou Europe Fund**

Series A \$CAN	8.2%
Series A \$US	12.0%

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Series F \$CAN	8.5%
Series F \$US	12.4%

### **Chou Bond Fund**

Series A \$CAN	-4.9%
Series A \$US	-1.5%

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Series F \$CAN	-4.8%
Series F \$US	-1.4%

### **Chou RRSP Fund**

Series A \$CAN	3.8%
Series A \$US	7.4%

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Series F \$CAN	4.1%
Series F \$US	7.7%

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**CHOU ASSOCIATES FUND**  
(unaudited)

August 14, 2017

Dear Unitholders of Chou Associates Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at June 30, 2017 was \$113.78 compared to \$110.60 at December 31, 2016, an increase of 2.9%; during the same period, the S&P 500 Total Return Index increased 5.6% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Associates Fund was up 6.5% while the S&P 500 Total Return Index returned 9.3%.

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

<b>June 30, 2017 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou Associates (\$CAN)	24.6%	0.9%	10.5%	4.3%	6.6%	8.5%
S&P 500 (\$CAN)	18.0%	17.0%	20.3%	9.4%	7.2%	6.8%
Chou Associates (\$US) <sup>1</sup>	24.2%	-5.5%	5.3%	2.3%	7.8%	8.8%
S&P 500 (\$US)	17.9%	9.6%	14.6%	7.2%	8.3%	7.2%

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

**Factors Influencing the First Six-Month Results**

The biggest positive contributors to the Fund’s performance in the first half of 2017 included JPMorgan Chase warrants expiring on October 2018, and the equity securities of Nokia, Valeant Pharmaceuticals, Sanofi, and Citigroup Inc.

Equities of Sears Hometown and Outlet Stores, Resolute Forest Products, and MBIA Inc. were the main negative contributors to the Fund’s performance during the same period.

During the period, the Fund decreased its holdings of Nokia, JPMorgan Chase warrants, and Citigroup Inc.

New additions during the period include equity stakes in Teva Pharmaceutical and Endo International. The Fund also increased its position in Valeant Pharmaceuticals.

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

## U.S. Bank TARP Warrants

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

Security	Average Cost Base (ACB)*	Price as of Dec. 31, 2016	Price as of Jun. 30, 2017	% Increase From ACB
JPMorgan Chase Warrants (Oct. 28, 2018)	\$12.64	\$44.27	\$50.29	298%
Wells Fargo Warrants (Oct. 28, 2018)	\$7.73	\$21.33	\$22.20	187%
The Goldman Sachs Group	\$127.85	\$239.45	\$221.90	74%
Citigroup Inc.	\$24.60	\$59.43	\$66.88	172%

\* As of June 30, 2017

Note: Prices are in \$USD.

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

However, it is important to note that any future decision to sell the warrants or buy the common stock will be based on our view of the markets at the time, as well as the issues that exist when we make any such investment decision.

## EXCO Resources

As of June 30, 2017, the Fund owned about US\$36.8 million worth of EXCO Resources (EXCO)'s 1.75 lien term loan (converted from the second-lien term loan held previously in Feb. 2017), with US\$51.5 million in par value. This is the largest position in the portfolio, comprising more than 10% of the assets of the Fund (at market value).

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

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

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

## **Valeant and the Pharmaceutical Industry**

As if Valeant has not given enough pain and anguish to our unitholders, we believe pharmaceutical stocks as a group are selling at attractive valuations. They generate their earnings in cash and most of them are selling at less than 10 times earnings. Some of them are down more than 50% from their highs, which is what caught our attention initially. It may look like we are adding more emotional fuel to the fire from our experience with Valeant but we look at mispriced stocks on a case-by-case basis. Given our current favorable view of the pharmaceutical industry generally, as next discussed in greater detail, we expect to invest in stocks of more than two or more pharmaceutical companies (that is, to utilize a so-called “basket approach”), in order to reduce the potential adverse effect on fund returns that could result from Food and Drug Administration (FDA) approval and patent expiration issues faced by a single company.

### *A Historical Perspective*

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

It started with the 1992 U.S. presidential election. Clinton, the Democratic president-elect at the time vowed to make drug-price containment and universal health-care a cornerstone of his administration’s plan to cut the nation’s health-care bill, and promised to unveil a sweeping reform plan within his first 100 days in office. Several other politicians also joined the assault on the pharmaceutical industry by criticizing manufacturers for “drug price gouging” on critical medicines that patients needed by raising prices as high as three times the inflation rate in the 1980s. The political message was to protect American consumers from unfair and unaffordable drug prices by taking away the industry’s carrots and replacing them with sticks.

As nervous investors feared that the incoming administration would enforce a tough pricing policy for prescription drugs, drug stocks were hammered starting in the pre-inaugural weeks, and continued to deteriorate with Clinton’s victory in November 1992 and throughout debates over Clinton’s health-care reform proposal from 1993 to 1994 (*see Figure 1*). The market psychology toward pharmaceutical stocks hit a decade low, as concerns heightened over the drug firms’ ability to maintain their profit margins in a constrained pricing environment, despite new products in the pipeline.

Some of the key drug-related legislation proposed then as part of the health-care reform included:

- A new National Health Board would determine the “reasonableness” of new drug prices based on prices charged in other countries and producer costs. They would investigate “unreasonable” drug prices, and require companies to bring prices in parity with other nations if a drug price was higher in the U.S. than abroad.

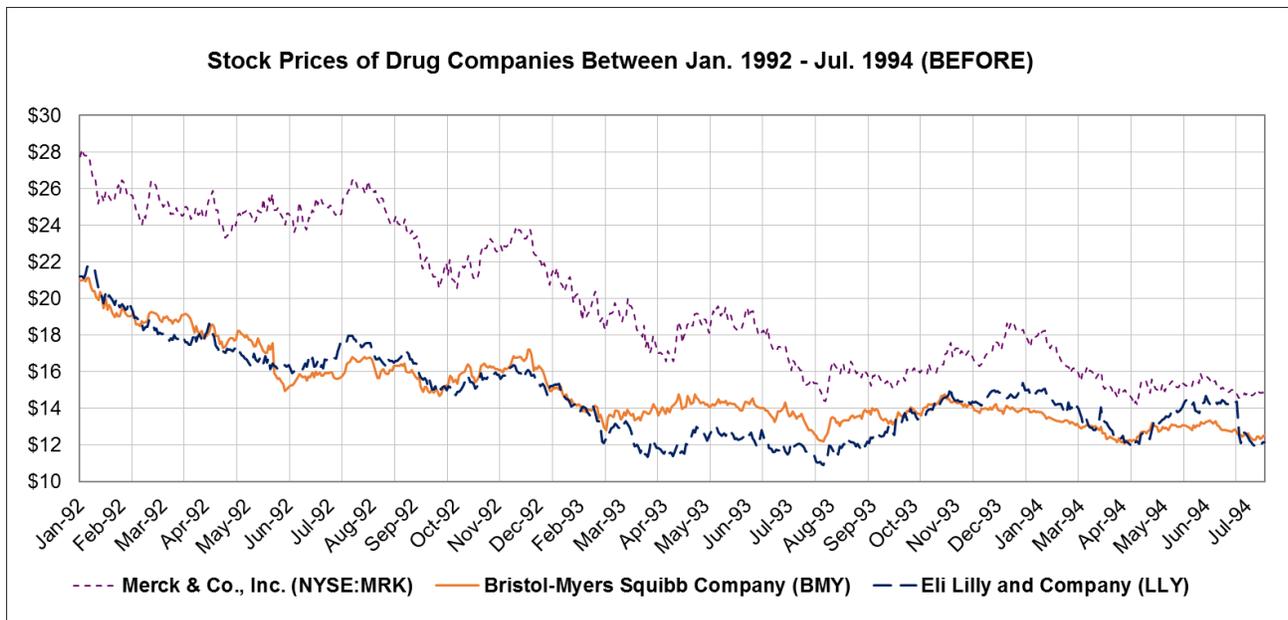
- Drug companies would have to return to Medicare a rebate of 15% of their average nationwide price of each drug paid for by Medicare.
- The Secretary of Health and Human Services could bargain down the prices of new drugs before Medicare agreed to pay for them. Failures to negotiate an acceptable price could lead to total exclusion from Medicare coverage.
- Doctors would need permission from a government official to prescribe what were deemed as unreasonably priced drugs for Medicare patients.

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

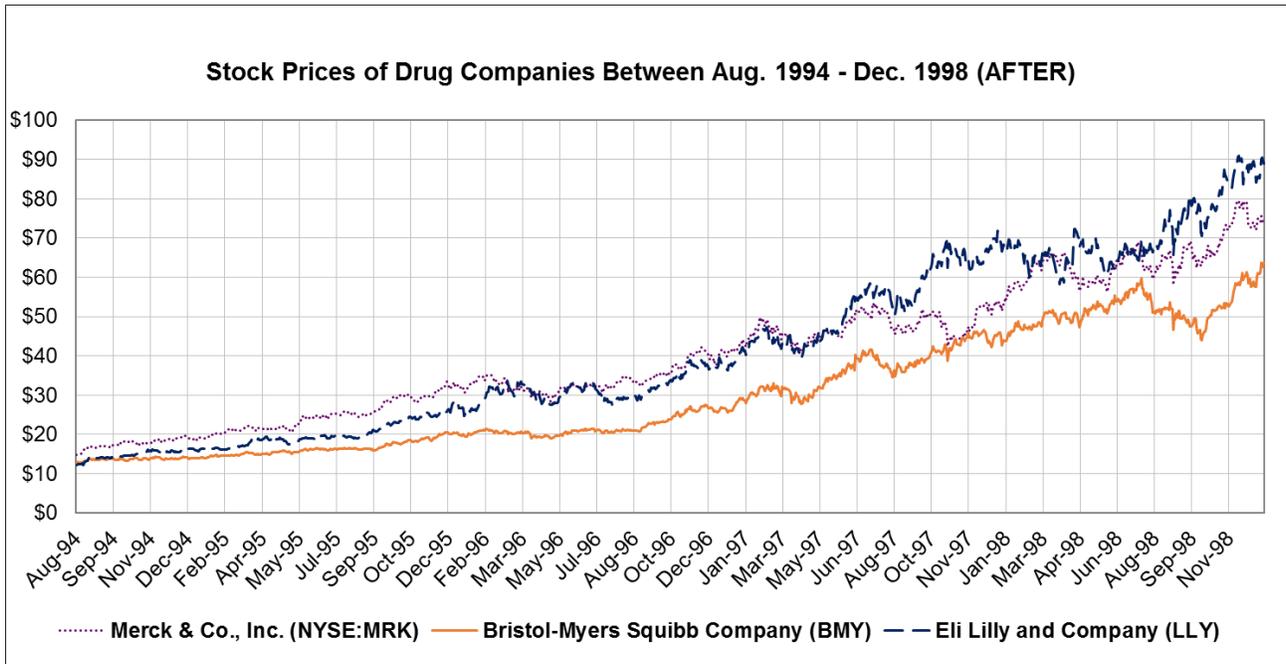
Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what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

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

**FIGURE 1.**



**FIGURE 2.**



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

### **Sears Holdings**

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

### **Resolute Forest Products**

As of June 30, 2017, the market price of Resolute Forest Products (RFP) was at \$4.40 per share, giving a market capitalization of roughly US\$395 million dollars. As we have explained in the past, the company continues to have consolidated sales of close to US\$3.6 billion and in each of its major business segments, it is a global leader. It continues to be the biggest volume producer of wood products east of the Rockies, the third largest in North America for market pulp, the number one producer of newsprint in the world and the largest producer in North America of uncoated mechanical paper and an emerging tissue producer. The wood products segment continues to have revenues of approximately US\$500 million, while the other three segments each continue to have revenues of approximately US\$1 billion. We believe that each of the four business segments could fetch at least US\$400 million in a normal market and, as a result, RFP may be undervalued. However, we have been disappointed not just in terms of the stock price but management's ability to make sound capital allocation decisions.

## **Short Term Performance Impacts Long Term Returns**

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

A lot of investors are not aware that short-term results can have a huge bearing on the five and ten-year annualized compounded returns. For example, let's take Fund A and Fund B. Fund A consistently returns 7% per year for 10 years and therefore its compound rate of return over the 10-year period is 7%. Fund B, on the other hand, returns 8% for the first nine years but suffers a loss of 20% in the tenth year. Its compound rate of return for the 10-year period drops significantly to 4.8%. The impact is more pronounced for the 5-year returns, a similar decline of 20% in the fifth year would have decreased the 5-year compound return from 8% to merely 1.7% for Fund B versus 7% for Fund A.

We've had to answer the same kind of question in 1999. The S&P 500 index was up close to 13.9%, whereas the Fund was down 9.6%. Again, our ten and five-year annualized returns looked horrible in comparison to the index, but that is how the math works.

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

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

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

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

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2017.

CREDIT DEFAULT SWAPS: None existed at June 30, 2017.

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

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2016 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

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

As of August 14, 2017, the NAVPU of a Series A unit of the Fund was \$105.34 and the cash position was approximately 3.4% of net assets. The Fund is down 4.7% from the beginning of the year. In U.S. dollars, it is up 0.5%.

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

Yours truly,



Francis Chou  
Fund Manager

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## Management's Responsibility for Financial Reporting

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To the unitholders of the Chou Funds:

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

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

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

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

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.



Francis Chou  
Chou Associates Management Inc.  
August 14, 2017

# CHOU ASSOCIATES FUND

## Statements of Financial Position

June 30, 2017 (Unaudited) and December 31, 2016

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 345,746,736	\$ 323,337,876
Held-for-trading investments (note 8)	69,857,462	95,815,629
Cash and cash equivalents	11,591,561	29,731,822
Receivable for units subscribed	31,240	52,712
Due from broker	–	906,261
Interest receivable	429,222	229,071
Dividends receivable	124,461	–
<b>Total assets</b>	<b>427,780,682</b>	<b>450,073,371</b>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	915,431	851,347
Payable for units redeemed	1,085,655	464,886
Due to broker	–	4,873
<b>Total liabilities</b>	<b>2,001,086</b>	<b>1,321,106</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>\$ 425,779,596</b>	<b>\$ 448,752,265</b>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 381,398,654	\$ 403,677,931
Series F	44,380,942	45,074,334
	<b>\$ 425,779,596</b>	<b>\$ 448,752,265</b>
Number of units outstanding (note 4):		
Series A	3,352,115	3,650,048
Series F	390,975	409,648
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 113.78	\$ 110.60
Series F	113.51	110.03
U.S. dollars:		
Series A	87.74	82.37
Series F	87.53	81.95

See accompanying notes to financial statements.

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

*Francis Chou*



# CHOU ASSOCIATES FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Income:</b>		
Interest for distribution purposes and other	\$ 7,351,368	\$ 4,830,980
Dividends	1,708,223	2,382,195
Securities lending income (note 7)	2,352,708	1,162,006
Foreign currency gain (loss) on cash and other net assets	(20,197)	1,760,275
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	18,797,155	25,848,210
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	(18,642,302)	(111,503,422)
Change in unrealized appreciation (depreciation) on held-for-trading investments	(19,775,452)	(14,533,150)
Realized gain (loss) on held-for-trading investments	24,647,861	(6,393,661)
	16,419,364	(96,446,567)
<b>Expenses:</b>		
Management fees (note 5)	3,465,490	3,485,904
Custodian fees	271,500	273,000
Audit	33,409	58,769
Filing fees	22,625	22,750
FundSERV fees	17,098	14,885
Legal fees	9,050	9,100
Transaction costs (note 6)	257,196	188,086
Foreign withholding taxes	297,392	520,773
Other	49,428	10,046
	4,423,188	4,583,313
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 11,996,176	\$ (101,029,880)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ 10,625,924	\$ (91,872,468)
Series F	1,370,252	(9,157,412)
	\$ 11,996,176	\$ (101,029,880)
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 3.04	\$ (23.12)
Series F	3.38	(22.60)

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

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

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 403,677,931	\$ 468,191,243
Increase (decrease) in net assets attributable to unitholders of redeemable units	10,625,924	(91,872,468)
Proceeds from issue of units	2,484,466	14,323,899
Payments on redemption of units	(35,390,207)	(31,978,631)
Distributions of income to unitholders:		
Investment income	10	—
Realized capital gains	8	—
Reinvested distributions	522	68
Net assets attributable to unitholders of redeemable units, end of period	381,398,654	358,664,111
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	45,074,334	45,520,102
Increase (decrease) in net assets attributable to unitholders of redeemable units	1,370,252	(9,157,412)
Proceeds from issue of units	6,050,429	9,349,631
Payments on redemption of units	(8,114,162)	(7,849,270)
Distributions of income to unitholders:		
Investment income	1	—
Reinvested distributions	88	43
Net assets attributable to unitholders of redeemable units, end of period	44,380,942	37,863,094
<b>Total net assets, end of period</b>	<b>\$ 425,779,596</b>	<b>\$ 396,527,205</b>

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Cash Flows

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 11,996,176	\$ (101,029,880)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	20,197	(1,760,275)
Net realized gain on financial assets designated at fair value through profit or loss	(43,445,016)	(25,848,210)
Change in unrealized appreciation on investments and derivatives	38,417,754	126,036,572
Change in non-cash operating working capital:		
Increase in interest receivable	(200,151)	(434,542)
Increase in dividends receivable	(124,460)	(1,232,273)
Increase (decrease) in accrued expenses	64,084	(109,990)
Purchase of investments	(85,819,720)	(122,757,927)
Proceeds from sales of investments	95,297,676	40,884,570
Net cash generated from (used in) operating activities	16,206,540	(86,251,955)
<b>Cash flows from financing activities:</b>		
Distributions reinvested (paid to) unitholders	629	(43,555)
Proceeds from redeemable units issued	8,556,367	23,670,933
Amount paid on redemption of redeemable units	(42,883,600)	(39,220,415)
Net cash used in financing activities	(34,326,604)	(15,593,037)
Foreign currency gain (loss) on cash and other net assets	(20,197)	1,760,275
Increase (decrease) in cash and cash equivalents	(18,140,261)	(100,084,717)
Cash and cash equivalents, beginning of period	29,731,822	147,614,159
<b>Cash and cash equivalents, end of period</b>	<b>\$ 11,591,561</b>	<b>\$ 47,529,442</b>
Supplemental information:		
Interest received, net of withholding tax	\$ 7,151,217	\$ 4,396,438
Dividends received, net of withholding tax	1,268,370	1,149,401
Security lending income received	2,352,708	1,162,006

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Schedule of Investments

June 30, 2017 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
Ascent Capital Group Inc., Series 'A'	306,000	\$ 14,141,686	\$ 6,095,167
Berkshire Hathaway Inc., Class 'A'	150	15,819,918	49,544,244
Chicago Bridge & Iron Company NV	67,446	2,967,433	1,725,664
Citigroup Inc.	310,000	7,832,219	26,886,295
Endo International PLC	870,000	13,890,251	12,602,173
EXCO Resources Inc.	207,258	2,762,596	712,246
MBIA Inc.	1,080,797	7,479,425	13,216,876
Nokia OYJ, ADR	1,250,000	2,943,128	9,985,360
Overstock.com Inc.	430,295	8,660,596	9,095,507
Overstock.com Inc., Class 'B'	43,030	890,010	864,920
Resolute Forest Products Inc.	3,347,772	50,233,049	19,102,119
Sanofi, ADR	390,000	13,783,524	24,230,578
Sears Canada	482,319	5,170,600	501,628
Sears Holdings Corporation	1,131,610	32,759,977	13,001,801
Sears Hometown and Outlet Stores Inc.	1,322,209	24,776,606	4,629,530
Teva Pharmaceutical Industries Limited, ADR	490,000	20,712,569	21,109,051
The Goldman Sachs Group Inc.	75,000	9,384,141	21,581,994
Valeant Pharmaceuticals International Inc.	2,583,843	93,993,540	57,967,588
		328,201,268	292,852,741
<b>Bonds</b>			
Dex Media West Inc., term loans, December 31, 2017	827,867	1,097,710	1,100,417
Exco Resources Inc., term loans, October 26, 2020	51,536,520	35,070,898	47,785,280
Exco Resources Inc., 8.500%, April 15, 2022, Callable	1,362,000	359,034	1,112,732
Westmoreland Coal Company, 8.750%, January 1, 2022, Callable	2,523,000	2,033,711	2,895,566
		38,561,353	52,893,995
Total long		366,762,621	345,746,736
<b>Held for trading</b>			
General Motors Company, warrants, October 07, 2019	13,019	211,015	292,583
JPMorgan Chase & Company, warrants, October 28, 2018	626,347	7,745,051	40,847,891
Wells Fargo & Company, warrants, October 28, 2018	997,500	7,995,397	28,716,988
		15,951,463	69,857,462
Total held for trading		15,951,463	69,857,462
Total investments		382,714,084	415,604,198
Transaction costs		(428,792)	—
Portfolio total		\$ 382,285,292	\$ 415,604,198

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Investment objective and strategies:

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

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

### Risk management:

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

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2017, the Fund invested approximately 12.16% (December 31, 2016 - 12.16%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2017, the Fund invested approximately 0.25% (December 31, 2016 - 0.56%) of its net assets in non-rated bonds.

#### (b) Interest rate risk:

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

Debt instruments by maturity date:

	June 30, 2017	December 31, 2016
Less than 1 year	\$ —	\$ 2,511,169
1 - 3 years	—	—
3 - 5 years	52,893,995	50,426,227
Greater than 5 years	—	4,022,381

As at June 30, 2017, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$108,746 (December 31, 2016 - \$518,861).

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

# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Risk management (continued):

(c) **Other price risk:**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 68.58% (December 31, 2016 - 59.36%) of the Fund's net assets held at June 30, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2017, the net assets of the Fund would have increased or decreased by approximately \$14,599,391 or 3.43% (December 31, 2016 - \$13,318,905 or 2.97%) of the net assets, all other factors remaining constant.

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

(d) **Foreign currency risk:**

Currencies to which the Fund had exposure as at June 30, 2017 and December 31, 2016 are as follows:

<b>June 30, 2017</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 428,577,667	100.7

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<b>December 31, 2016</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 430,181,228	95.6

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

As at June 30, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$4,285,777 (December 31, 2016 - \$4,301,812).

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

**CHOU ASIA FUND**  
(unaudited)

August 14, 2017

Dear Unitholders of Chou Asia Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Asia Fund at June 30, 2017 was \$18.09 compared to \$16.58 at December 31, 2016, an increase of 9.1%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars returned 12.1%. In U.S. dollars, a Series A unit of Chou Asia Fund was up 13.0% while the MSCI AC Asia Pacific Total Return Index returned 16.0%.

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

<b>June 30, 2017 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Asia (\$CAN)	12.3%	6.2%	9.5%	4.8%
MSCI AC Asia Pacific TR (\$CAN)	23.3%	12.1%	14.3%	5.2%
Chou Asia (\$US) <sup>1</sup>	11.9%	-0.5%	4.4%	2.8%
MSCI AC Asia Pacific TR (\$US)	23.2%	5.0%	8.8%	3.1%

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 First Six-Month Results**

Top gainers during the first half of 2017 were the equity holdings of POSCO Sponsored ADR, BYD Company Limited, BYD Electronic Company and China Yuchai International.

Most of the declines came from the equity securities of AJIS Company Limited. The renminbi had depreciated against the Canadian currency during the period, which also negatively impacted the Fund.

The Fund reduced holdings of BYD Electronic Company by about 30% in the six months.

**Portfolio Commentary**

The average month-end cash balance for the first half of 2017 was approximately 60.5%, and at year-end 2016, the net cash balance was approximately 67.6% – which tells its own story. We

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

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

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

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

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

We are awaiting developments and remain cautious. In addition, we are also looking at the South Korean, Indian, and Chinese markets for any potential bargains.

#### **Other Matters**

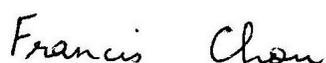
**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2016 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

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

As of August 14, 2017, the NAVPU of a Series A unit of the Fund was \$18.19 and the cash position was approximately 46.2% of net assets. The Fund is up 9.7% from the beginning of the year. In U.S. dollars, it is up 15.7%.

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

Yours truly,



Francis Chou  
Fund Manager

# CHOU ASIA FUND

## Statements of Financial Position

June 30, 2017 (Unaudited) and December 31, 2016

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 14,185,036	\$ 11,591,550
Cash and cash equivalents	21,119,008	24,109,087
Receivable for units subscribed	11,000	1,000
Dividends receivable	123,926	970
Total assets	35,438,970	35,702,607
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	95,773	82,044
Payable for units redeemed	26,475	—
Total liabilities	122,248	82,044
Net assets attributable to unitholders of redeemable units	\$ 35,316,722	\$ 35,620,563
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 32,711,761	\$ 33,071,841
Series F	2,604,961	2,548,722
	\$ 35,316,722	\$ 35,620,563
Number of units outstanding (note 4):		
Series A	1,808,402	1,995,196
Series F	141,290	151,314
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 18.09	\$ 16.58
Series F	18.44	16.84
U.S. dollars:		
Series A	13.95	12.35
Series F	14.22	12.54

See accompanying notes to financial statements.

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

Francis Chou



# CHOU ASIA FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Income:</b>		
Interest for distribution purposes and other	\$ —	\$ (3,447)
Dividends	185,084	128,272
Securities lending income (note 7)	68,772	13,950
Foreign currency loss on cash and other net assets	(656,666)	(222,851)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on financial assets designated at fair value through profit or loss	1,192,491	(1,503)
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	2,714,598	96,280
Realized loss on held-for-trading investments	—	(2,478)
	3,504,279	8,223
<b>Expenses:</b>		
Management fees (note 5)	295,549	309,841
Custodian fees	21,720	21,840
Audit	3,532	10,805
Filing fees	131	2,472
FundSERV fees	3,848	1,304
Legal fees	457	—
Transaction costs (note 6)	3,597	—
Foreign withholding taxes	10,883	9,027
Other	5,761	1,796
	345,478	357,085
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 3,158,801	\$ (348,862)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 2,943,321	\$ (338,669)
Series F	215,480	(10,193)
	\$ 3,158,801	\$ (348,862)
Average number of units outstanding for the period for the Series:		
Series A	1,890,158	2,219,951
Series F	140,618	155,171
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 1.55	\$ (0.15)
Series F	1.52	(0.07)

See accompanying notes to financial statements.

# CHOU ASIA FUND

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

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 33,071,841	\$ 37,670,566
Increase (decrease) in net assets attributable to unitholders of redeemable units	2,943,321	(338,669)
Proceeds from issue of units	161,159	478,927
Payments on redemption of units	(3,464,560)	(3,553,338)
Reinvested distributions	–	156
Net assets attributable to unitholders of redeemable units, end of period	32,711,761	34,257,642
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	2,548,722	2,445,647
Increase (decrease) in net assets attributable to unitholders of redeemable units	215,480	(10,193)
Proceeds from issue of units	604,252	357,255
Payments on redemption of units	(763,493)	(233,973)
Reinvested distributions	–	114
Net assets attributable to unitholders of redeemable units, end of period	2,604,961	2,558,850
<b>Total net assets, end of period</b>	<b>\$ 35,316,722</b>	<b>\$ 36,816,492</b>

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Cash Flows

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 3,158,801	\$ (348,862)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	656,666	222,851
Net realized loss (gain) on financial assets designated at fair value through profit or loss	(1,192,491)	1,503
Change in unrealized depreciation (appreciation) on investments and derivatives	(2,714,598)	(96,280)
Change in non-cash operating working capital:		
Increase in dividends receivable	(122,956)	–
Increase in accrued expenses	13,729	4,278
Proceeds from sales of investments	1,313,603	–
Net cash generated from (used in) operating activities	1,112,754	(216,510)
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	–	(97,229)
Proceeds from redeemable units issued	755,411	836,140
Amount paid on redemption of redeemable units	(4,201,578)	(3,695,291)
Net cash used in financing activities	(3,446,167)	(2,956,380)
Foreign currency loss on cash and other net assets	(656,666)	(222,851)
Decrease in cash and cash equivalents	(2,990,079)	(3,395,741)
Cash and cash equivalents, beginning of period	24,109,087	29,197,185
Cash and cash equivalents, end of period	\$ 21,119,008	\$ 25,801,444
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ –	\$ 3,447
Dividends received, net of withholding taxes	51,245	128,263
Security lending income received	68,772	13,950

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Schedule of Investments

June 30, 2017 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
AJIS Company Limited	30,400	213,157	747,621
BYD Company Limited, Class 'H'	573,000	989,812	4,558,835
BYD Electronic (International) Company Limited	1,298,000	314,798	3,337,409
China Yuchai International Limited	73,364	1,242,575	1,732,471
Hanfeng Evergreen Inc.	95,850	228,548	–
POSCO, ADR	21,000	1,259,883	1,704,501
Pyne Gould Corporation Limited	9,627,219	2,155,762	2,104,199
Total long		6,404,535	14,185,036
Total investments		6,404,535	14,185,036
Transaction costs		(7,993)	–
Portfolio total		\$ 6,396,542	\$ 14,185,036

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Investment objective and strategies:

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

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

### Risk management:

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

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 40.71% (December 31, 2016 - 32.54%) of the Fund's net assets held at June 30, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2017, the net assets of the Fund would have increased or decreased by approximately \$709,252 or 2.01% (December 31, 2016 - \$579,577 or 1.63%) of the net assets, all other factors remaining constant.

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

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2017 and December 31, 2016 are as follows:

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June 30, 2017	Financial instruments	Percentage of net asset value
Hong Kong dollar	\$ 17,943,119	50.8
United States dollar	\$ 9,779,141	27.7
New Zealand dollar	\$ 2,235,215	6.3
Japanese yen	¥ 765,611	2.2
Singapore dollar	\$ 164,270	0.5
China Reminbi	¥ 17,559	0.1

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# CHOU ASIA FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### Risk management (continued):

<b>December 31, 2016</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
Hong Kong dollar	\$ 16,407,456	46.1
United States dollar	\$ 8,089,524	22.7
New Zealand dollar	\$ 1,969,431	5.5
Japanese yen	¥ 962,948	2.7
Singapore dollar	\$ 161,692	0.5

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

As at June 30, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$309,049 (December 31, 2016 - \$275,911).

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

**CHOU EUROPE FUND**  
(unaudited)

August 14, 2017

Dear Unitholders of Chou Europe Fund,

As there were no distributions, the net asset value per unit (“NAVPU”) of a Series A unit of Chou Europe Fund at June 30, 2017 was \$10.50 compared to \$9.70 at December 31, 2016, an increase of 8.2%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars increased 11.5%. In U.S. dollars, a Series A unit of Chou Europe Fund was up 12.0% while the MSCI AC Europe Total Return Index returned 15.4%.

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

<b>June 30, 2017 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Europe (\$CAN)	14.5%	-6.7%	8.2%	0.3%
MSCI AC Europe TR (\$CAN)	21.8%	6.8%	14.3%	3.0%
Chou Europe (\$US) <sup>1</sup>	14.0%	-12.5%	2.8%	-1.8%
MSCI AC Europe TR (\$US)	21.7%	0.0%	8.9%	0.9%

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 First Six-Month Results**

Positive contributors to the Fund’s performance in the first half of 2017 include equity holdings of Ryanair Holdings, Intralot, Sanofi, and Eurobank Ergasias S.A. The Euro appreciated against the Canadian currency during the six months, which also contributed to the positive performance of the Fund.

The Fund’s decliners during the period were equities of NEXT PLC and OTCPharm.

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

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

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

## Pharmaceutical Industry - A Historical Perspective

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

It started with the 1992 U.S. presidential election. Clinton, the Democratic president-elect at the time vowed to make drug-price containment and universal health-care a cornerstone of his administration's plan to cut the nation's health-care bill, and promised to unveil a sweeping reform plan within his first 100 days in office. Several other politicians also joined the assault on the pharmaceutical industry by criticizing manufacturers for "drug price gouging" on critical medicines that patients needed by raising prices as high as three times the inflation rate in the 1980s. The political message was to protect American consumers from unfair and unaffordable drug prices by taking away the industry's carrots and replacing them with sticks.

As nervous investors feared that the incoming administration would enforce a tough pricing policy for prescription drugs, drug stocks were hammered starting in the pre-inaugural weeks, and continued to deteriorate with Clinton's victory in November 1992 and throughout debates over Clinton's health-care reform proposal from 1993 to 1994 (*see Figure 1*). The market psychology toward pharmaceutical stocks hit a decade low, as concerns heightened over the drug firms' ability to maintain their profit margins in a constrained pricing environment, despite new products in the pipeline.

Some of the key drug-related legislation proposed then as part of the health-care reform included:

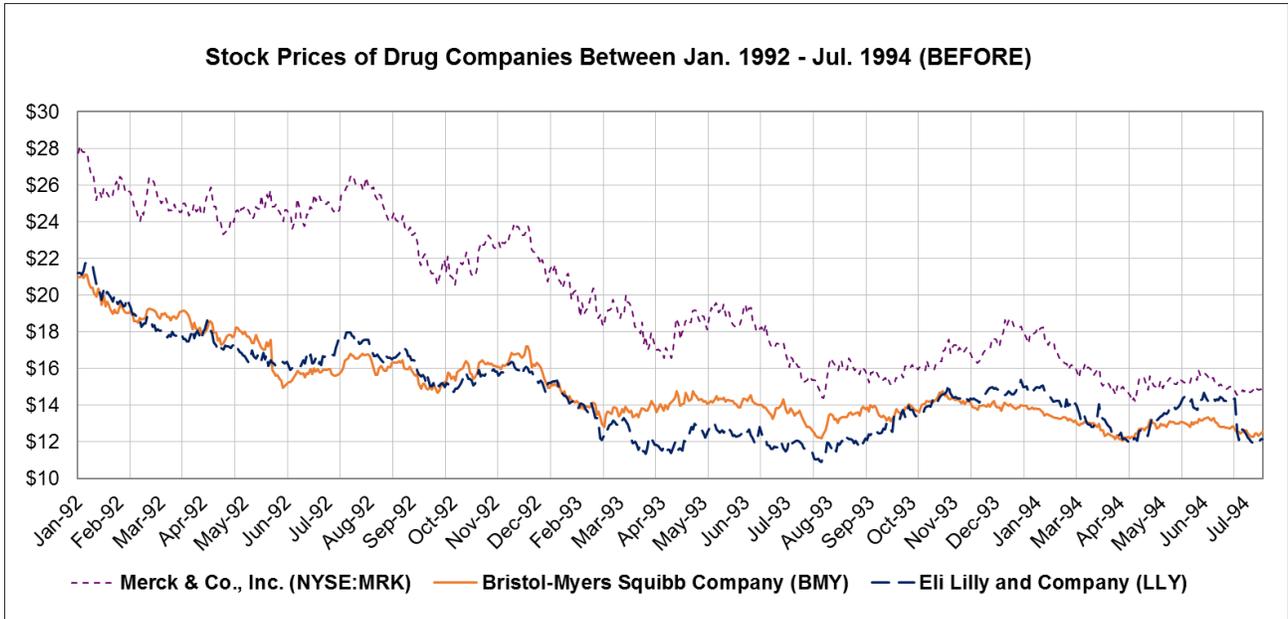
- A new National Health Board would determine the "reasonableness" of new drug prices based on prices charged in other countries and producer costs. They would investigate "unreasonable" drug prices, and require companies to bring prices in parity with other nations if a drug price was higher in the U.S. than abroad.
- Drug companies would have to return to Medicare a rebate of 15% of their average nationwide price of each drug paid for by Medicare.
- The Secretary of Health and Human Services could bargain down the prices of new drugs before Medicare agreed to pay for them. Failures to negotiate an acceptable price could lead to total exclusion from Medicare coverage.
- Doctors would need permission from a government official to prescribe what were deemed as unreasonably priced drugs for Medicare patients.

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

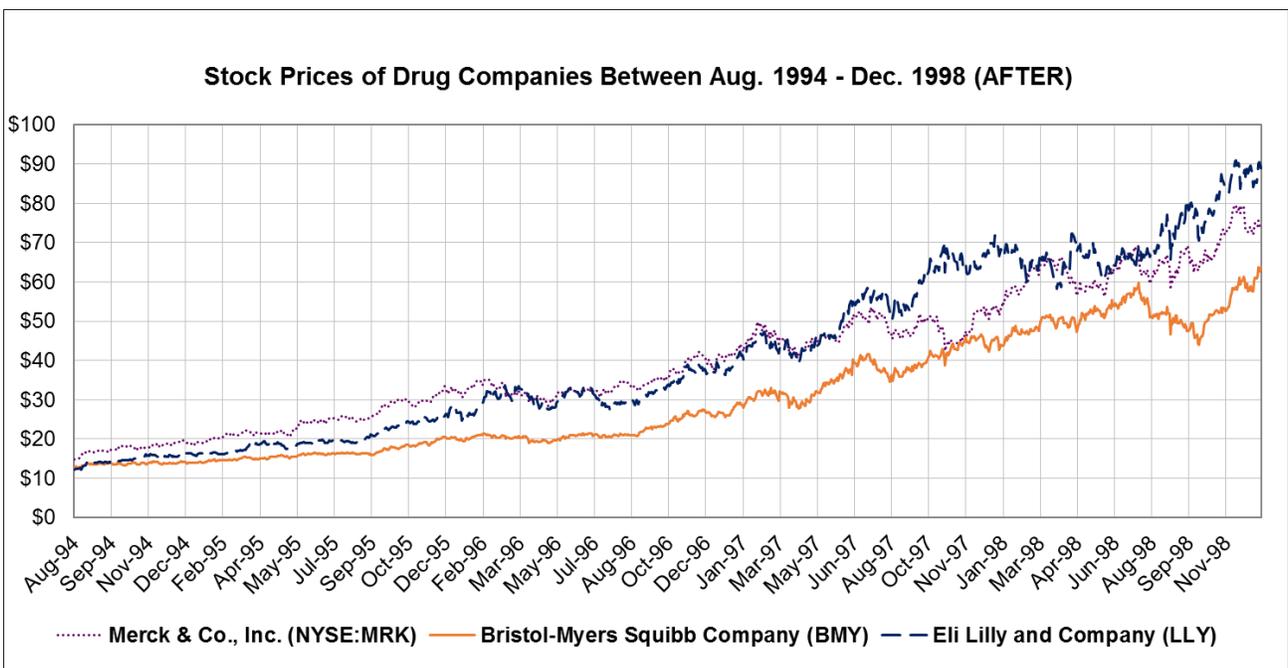
Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what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

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

**FIGURE 1.**



**FIGURE 2.**



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

### **Other Matters**

**FOREIGN CURRENCY CONTRACTS:** None existed at June 30, 2017.

**CREDIT DEFAULT SWAPS:** None existed at June 30, 2017.

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

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

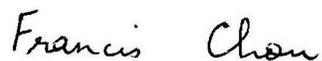
**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2016 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

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

As of August 14, 2017, the NAVPU of a Series A unit of the Fund was \$10.26 and the cash position was approximately 10.3% of net assets. The Fund is up 5.8% from the beginning of the year. In U.S. dollars, it is up 11.6%.

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

Yours truly,



Francis Chou  
Fund Manager

# CHOU EUROPE FUND

## Statements of Financial Position

June 30, 2017 (Unaudited) and December 31, 2016

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 11,674,447	\$ 11,230,159
Cash and cash equivalents	1,324,248	2,458,245
Receivable for units subscribed	10,000	–
Dividends receivable	6,383	21,445
Total assets	13,015,078	13,709,849
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	21,273	21,192
Payable for units redeemed	16,745	–
Total liabilities	38,018	21,192
Net assets attributable to unitholders of redeemable units	\$ 12,977,060	\$ 13,688,657
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 12,083,690	\$ 12,164,662
Series F	893,370	1,523,995
	\$ 12,977,060	\$ 13,688,657
Number of units outstanding (note 4):		
Series A	1,150,742	1,253,703
Series F	82,990	153,653
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 10.50	\$ 9.70
Series F	10.76	9.92
U.S. dollars:		
Series A	8.10	7.22
Series F	8.30	7.39

See accompanying notes to financial statements.

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

Francis Chou



# CHOU EUROPE FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Income:</b>		
Dividends	\$ 68,115	\$ 142,204
Securities lending income (note 7)	36	62
Foreign currency gain (loss) on cash and other net assets	(20,304)	59,841
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on financial assets designated at fair value through profit or loss	646,637	(587,297)
Change in unrealized appreciation (depreciation) on financial assets designated at fair value through profit or loss	522,655	(3,669,940)
Change in unrealized appreciation on held-for-trading investments	–	753,750
Realized loss on held-for-trading investments	–	(1,279,437)
	1,217,139	(4,580,817)
<b>Expenses:</b>		
Management fees (note 5)	106,674	143,959
Custodian fees	7,240	8,271
Audit	846	4,759
Filing fees	195	1,077
FundSERV fees	2,979	644
Legal fees	155	–
Transaction costs (note 6)	8,554	14,668
Foreign withholding taxes	9,360	20,440
Other (recovery)	75,753	(2,094)
	211,756	191,724
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,005,383	\$ (4,772,541)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 940,453	\$ (3,936,828)
Series F	64,930	(835,713)
	\$ 1,005,383	\$ (4,772,541)
Average number of units outstanding for the period for the Series:		
Series A	1,188,365	1,421,338
Series F	97,373	300,240
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 0.79	\$ (2.77)
Series F	0.67	(2.78)

See accompanying notes to financial statements.

# CHOU EUROPE FUND

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

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 12,164,662	\$ 17,973,621
Increase (decrease) in net assets attributable to unitholders of redeemable units	940,453	(3,936,828)
Proceeds from issue of units	293,763	255,913
Payments on redemption of units	(1,315,188)	(2,011,179)
Net assets attributable to unitholders of redeemable units, end of period	12,083,690	12,281,527
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	1,523,995	3,826,948
Increase (decrease) in net assets attributable to unitholders of redeemable units	64,930	(835,713)
Proceeds from issue of units	58,486	114,629
Payments on redemption of units	(754,041)	(862,553)
Net assets attributable to unitholders of redeemable units, end of period	893,370	2,243,311
Total net assets, end of period	\$ 12,977,060	\$ 14,524,838

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Cash Flows

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,005,383	\$ (4,772,541)
Adjustments for:		
Foreign currency gain on cash and other net assets	20,304	(59,841)
Net realized loss (gain) on financial assets designated at fair value through profit or loss	(646,637)	587,297
Change in unrealized depreciation (appreciation) on investments and derivatives	(522,655)	2,916,190
Change in non-cash operating working capital:		
Increase in interest receivable	–	(2)
Decrease in dividends receivable	15,062	26,423
Increase (decrease) in accrued expenses	81	(10,485)
Purchase of investments	(2,199,685)	(909,527)
Proceeds from sales of investments	2,924,689	144,668
Net cash generated from (used in) operating activities	596,542	(2,077,818)
<b>Cash flows from financing activities:</b>		
Proceeds from redeemable units issued	342,249	356,386
Amount paid on redemption of redeemable units	(2,052,484)	(2,612,440)
Net cash used in financing activities	(1,710,235)	(2,256,054)
Foreign currency gain (loss) on cash and other net assets	(20,304)	59,841
Decrease in cash and cash equivalents	(1,133,997)	(4,274,031)
Cash and cash equivalents, beginning of period	2,458,245	7,184,135
Cash and cash equivalents, end of period	\$ 1,324,248	\$ 2,910,104
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ –	\$ 2
Dividends received, net of withholding taxes	324	168,607
Security lending income received	36	62

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Schedule of Investments

June 30, 2017 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
Abbey Public Limited Company	31,639	\$ 227,314	\$ 658,410
Bank of Ireland	3,400,000	383,114	1,158,254
Endo International PLC	80,000	1,254,127	1,158,820
Eurobank Ergasias SA	850,000	3,265,557	1,233,792
Intralot A.E.	717,575	1,659,636	1,275,397
NEXT PLC	18,000	581,417	1,172,319
OTCPharm PJSC	235,938	–	815,647
Ryanair Holdings PLC, ADR	16,575	478,532	2,313,019
Sanofi, ADR	20,000	884,092	1,242,594
Teva Pharmaceutical Industries Limited, ADR	15,000	666,215	646,195
Total long		9,400,004	11,674,447
Total investments		9,400,004	11,674,447
Transaction costs		(14,446)	–
Portfolio total		\$ 9,385,558	\$ 11,674,447

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Investment objective and strategies:

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

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

### Financial risk management:

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

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 89.96% (December 31, 2016 - 82.04%) of the Fund's net assets held at June 30, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2017, the net assets of the Fund would have increased or decreased by approximately \$583,722 or 4.5% (December 31, 2016 - \$561,508 or 4.1%) of the net assets, all other factors remaining constant.

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

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2017 and December 31, 2016 are as follows:

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<b>June 30, 2017</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
Sterling pound	£ 1,301,500	10.0
Euro currency	€ 5,436,361	41.9
United States dollar	\$ 6,227,316	48.0

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# CHOU EUROPE FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Financial risk management (continued):

<b>December 31, 2016</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
Sterling pound	£ 5,594,998	40.9
Euro currency	€ 4,465,755	32.6
United States dollar	\$ 3,239,326	23.7

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including dividends receivable and receivable for units subscribed) and financial liabilities (including 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 June 30, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$129,652 (December 31, 2016 - \$133,001).

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

## CHOU BOND FUND

(unaudited)

August 14, 2017

Dear Unitholders of Chou Bond Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Bond Fund at June 30, 2017 was \$8.37 compared to \$8.79 at December 31, 2016, a decrease of 4.9%; during the same period, Barclays U.S. Corporate High Yield Index (\$CAN) returned 1.4%. In U.S. dollars, a Series A unit of Chou Bond Fund was down 1.5% while Barclays U.S. Corporate High Yield Index returned 4.9%.

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

<b>June 30, 2017 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Bond (\$CAN)	11.8%	-0.6%	8.6%	3.4%
Barclays’ U.S. High Yield (\$CAN)	12.8%	11.6%	12.2%	9.9%
Chou Bond (\$US) <sup>1</sup>	11.4%	-6.8%	3.5%	1.4%
Barclays’ U.S High Yield (\$US)	12.7%	4.5%	6.9%	7.7%

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

### Factors Influencing the First Six-Month Results

Major positive contributors of the Fund in the first half of 2017 were the debt securities of Resolute Forest Products 5.875% due May 2023, as well as equity holdings of WOW Unlimited and Valeant Pharmaceuticals.

The major decliners in the Fund’s performance include the equity holdings of Resolute Forest Products and SandRidge Energy, as well as the debt securities of UkrLandFarming PLC 10.875%, due March 2018, and Avangardco Investments Public Limited 10.00%, due October 2018.

New additions to the Fund in the period were International Automotive Components Group 9.125%, due Jun 2018, and preferred shares of Sears Roebuck Acceptance. The Fund also increased holdings in EXCO 1.75L term loan due October 2020.

The Fund sold all equities in Catalyst Paper Corp., and reduced holdings in the bonds of Avangardco Investments Public Limited 10.00%, due October 2018, and Atlanticus Holdings 5.875%, due November 2035.

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

## **Portfolio Commentary**

Fund losses came mainly from positions in debt securities of two Ukrainian companies, Avangardco Investments and UkrLandFarming Company. Avangardco fell from 29.0 cents on a dollar on December 31, 2016 to 23.8 cents on June 30, 2017. Avangardco Investments is one of the leading agro-industrial companies in Ukraine, focusing on the production of shell eggs and egg products. According to the Pro-Consulting Report, it has a market share of approximately 57% of all industrially produced shell eggs and 91% of all dry egg products produced in Ukraine in 2013.

UkrLandFarming PLC fell from 31.7 cents on a dollar on December 31, 2016 to 24.0 cents on June 30, 2017. UkrLandFarming PLC operates as an integrated agricultural producer and distributor. The company engages in crops farming, eggs and egg products production, sugar production, as well as cattle and meat production and distribution.

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

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

## **Ascent Capital Group**

A big holding that benefitted the Fund was an investment in the 4% convertible security of Ascent Capital Group, Inc., a company which through its subsidiary, Monitronics International, Inc., provides security alarm monitoring and related services to residential and business subscribers in the United States and Canada. The convertible went up from 76.0 cents on a dollar on December 31, 2016 to 80.2 cents on a dollar on June 30, 2017. At the price of 80.2 cents, the yield to maturity is about 13%. We feel comfortable holding this debt security based upon our expectation that the company will continue to generate free cash flow and be able to service the debt.

## **Conclusion**

We believe that most of the bonds held in the Fund's portfolio are somewhat underpriced. Most of them are yielding close to 10% yield to maturity, and we believe that even if some of them go through bankruptcy, the recovery value will be at least close to the level at which the bonds are currently trading.

## **Other Matters**

**FOREIGN CURRENCY CONTRACTS:** None existed at June 30, 2017.

**CREDIT DEFAULT SWAPS:** None existed at June 30, 2017.

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

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

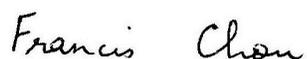
**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2016 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

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

As of August 14, 2017, the NAVPU of a Series A unit of the Fund was \$8.37 and the cash position was approximately 9.0% of net assets. The Fund is down 4.8% from the beginning of the year. In U.S. dollars, it is up 0.5%.

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

Yours truly,



Francis Chou  
Fund Manager

# CHOU BOND FUND

## Statements of Financial Position

June 30, 2017 (Unaudited) and December 31, 2016

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 34,158,766	\$ 36,688,801
Held-for-trading investments	10,397	10,765
Cash and cash equivalents	4,243,995	7,621,140
Receivable for units subscribed	1,150	–
Due from broker	–	661,041
Interest receivable	332,124	710,104
Dividends receivable	13,984	–
Total assets	38,760,416	45,691,851
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	85,800	78,614
Payable for units redeemed	4,693	99,851
Due to broker	951,202	2,920,264
Total liabilities	1,041,695	3,098,729
Net assets attributable to unitholders of redeemable units	\$ 37,718,721	\$ 42,593,122
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 34,774,516	\$ 38,981,802
Series F	2,944,205	3,611,320
	\$ 37,718,721	\$ 42,593,122
Number of units outstanding (note 4):		
Series A	4,156,880	4,432,708
Series F	346,028	403,615
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 8.37	\$ 8.79
Series F	8.51	8.94
U.S. dollars:		
Series A	6.45	6.55
Series F	6.56	6.66

See accompanying notes to financial statements.

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

Francis Chou



# CHOU BOND FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Income:</b>		
Interest for distribution purposes and other	\$ 900,755	\$ 2,302,502
Dividends	37,901	–
Securities lending income	1,812	–
Foreign currency gain (loss) on cash and other net assets	(152,952)	117,617
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	252,160	637,744
Change in unrealized depreciation on financial assets designated at fair value through profit or loss	(2,684,203)	(4,739,837)
Change in unrealized appreciation (depreciation) on held-for-trading investments	(367)	1,584,500
Realized loss on held-for-trading investments	–	(2,633,571)
	(1,644,894)	(2,731,045)
<b>Expenses:</b>		
Management fees (note 5)	260,467	236,854
Custodian fees	27,150	27,340
Audit	3,990	9,835
Filing fees	144	1,489
FundSERV fees	4,021	2,175
Legal fees	505	–
Transaction costs (note 6)	5,414	14,668
Foreign withholding taxes	2,480	–
Other	7,211	3,391
	311,382	295,752
Decrease in net assets attributable to unitholders of redeemable units	\$ (1,956,276)	\$ (3,026,797)
Decrease in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ (1,798,757)	\$ (2,821,534)
Series F	(157,519)	(205,263)
	\$ (1,956,276)	\$ (3,026,797)
Average number of units outstanding for the period for the Series:		
Series A	4,268,488	4,438,878
Series F	368,014	360,599
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.42)	\$ (0.64)
Series F	(0.42)	(0.57)

See accompanying notes to financial statements.

# CHOU BOND FUND

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

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 38,981,802	\$ 39,630,967
Decrease in net assets attributable to unitholders of redeemable units	(1,798,757)	(2,821,534)
Proceeds from issue of units	445,365	1,535,568
Payments on redemption of units	(2,853,894)	(2,375,127)
Net assets attributable to unitholders of redeemable units, end of period	34,774,516	35,969,874
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	3,611,320	3,173,592
Decrease in net assets attributable to unitholders of redeemable units	(157,519)	(205,263)
Proceeds from issue of units	207,173	466,310
Payments on redemption of units	(716,769)	(342,226)
Net assets attributable to unitholders of redeemable units, end of period	2,944,205	3,092,413
Total net assets, end of period	\$ 37,718,721	\$ 39,062,287

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Cash Flows

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (1,956,276)	\$ (3,026,797)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	152,952	(117,617)
Net realized gain on financial assets designated at fair value through profit or loss	(252,160)	(637,744)
Change in unrealized appreciation on investments and derivatives	2,684,570	3,155,337
Change in non-cash operating working capital:		
Decrease in interest receivable	377,980	387,581
Increase in dividends receivable	(13,985)	–
Increase in other receivables	–	(52,240)
Increase in accrued expenses	7,186	4,216
Purchase of investments	(10,991,011)	(464,716)
Proceeds from sales of investments	9,780,984	2,419,550
Net cash flows generated from (used in) operating activities	(209,760)	1,667,570
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	–	(61,619)
Proceeds from redeemable units issued	651,388	1,935,270
Amount paid on redemption of redeemable units	(3,665,821)	(2,609,573)
Net cash used in financing activities	(3,014,433)	(735,922)
Foreign currency gain (loss) on cash and other net assets	(152,952)	117,617
Increase (decrease) in cash and cash equivalents	(3,377,145)	1,049,265
Cash and cash equivalents, beginning of period	7,621,140	3,961,937
Cash and cash equivalents, end of period	\$ 4,243,995	\$ 5,011,202
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 1,278,735	\$ 2,690,083
Dividends received, net of withholding taxes	21,437	–
Security lending income received	1,812	–

See accompanying notes to financial statements.

# CHOU BOND FUND

## Schedule of Investments

June 30, 2017 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
Catalyst Paper Corporation**	2,389,016	\$ 1,201,690	\$ 1,201,690
EXCO Resources Inc.**	12,065	160,814	41,462
Resolute Forest Products Inc.	391,463	3,529,372	2,233,657
SandRidge Energy Inc.**	156,623	4,239,070	3,495,501
Sears Roebuck Acceptance Corporation	29,000	323,790	338,935
Wow Unlimited Media Inc.**	1,165,742	2,056,089	2,331,484
		11,510,825	9,642,729
<b>Bonds</b>			
Ascent Capital Group Inc., 4.000%, July 15, 2020, Convertible Bonds	2,683,000	2,776,137	2,789,975
Atlanticus Holdings Corporation, 5.875%, November 30, 2035, Convertible Bonds	5,800,000	2,567,430	3,704,309
Avangardco Investments Public Limited, 10.000%, October 29, 2018	2,255,000	2,297,674	695,102
Catalyst Paper Corporation, term loan, October 31, 2021	1,253,818	459,414	459,414
Dex Media West Inc., term loans, December 31, 2017	558,857	741,017	742,844
Exco Resources Inc., term loans, October 26, 2020	4,000,000	3,891,223	3,708,848
EXCO Resources Inc., 8.500%, April 15, 2022, Callable	628,000	198,203	513,066
Fortress Paper Limited, 7.000%, December 31, 2019, Convertible Bonds, Callable	4,659,000	2,621,102	4,356,165
International Automotive Components Group SA, 9.125%, June 1, 2018, Callable	780,000	1,008,955	993,803
Resolute Forest Products Inc., 5.875%, May 15, 2023, Callable	1,000,000	1,025,329	1,263,407
Taiga Building Products Limited, 14.000%, September 1, 2020, Callable	934,000	930,671	1,055,794
UKRLANDFARMING Public Company Limited, 10.875%, March 26, 2018	6,513,021	5,984,449	2,028,750
Valeant Pharmaceuticals International Inc., 6.125%, April 15, 2025, Callable	2,000,000	1,971,190	2,204,560
		26,472,794	24,516,037
<b>Total long</b>		37,983,619	34,158,766
<b>Held for trading</b>			
Dex Media West Inc., Warrants, August 15, 2023	160,356	–	10,397
<b>Total held-for-trading</b>		–	10,397
<b>Total investments</b>		37,983,619	34,169,163
Transaction costs		(5,297)	–
<b>Portfolio total</b>		\$ 37,978,322	\$ 34,169,163

\* Common shares unless indicated otherwise

\*\*Shares received from debt restructuring

See accompanying notes to financial statements.

# CHOU BOND FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Investment objective and strategies:

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

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

### Financial risk management:

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

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2017, the Fund invested approximately 23.02% (December 31, 2016 - 15.49%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. As at June 30, 2017, the Fund invested approximately 45.16% (December 31, 2016 - 55.61%) of its net assets in non-rated bonds.

#### (b) Interest rate risk:

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

Debt instruments by maturity date:

	June 30, 2017	December 31, 2016
Less than 1 year	\$ 4,683,657	\$ 3,408,080
1 - 3 years	5,051,267	8,141,140
3 - 5 years	8,810,527	10,173,785
Greater than 5 years	7,172,277	8,560,065

# CHOU BOND FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### Financial risk management (continued):

As at June 30, 2017, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$55,493 (December 31, 2016 - \$281,861).

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

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 25.56% (December 31, 2016 - 10.31%) of the Fund's net assets held at June 30, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2017, the net assets of the Fund would have increased or decreased by approximately \$482,137 or 1.28% (December 31, 2016 - \$219,524 or 0.52%) of the net assets, all other factors remaining constant.

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

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at December 31, 2016 and 2015 are as follows:

<b>June 30, 2017</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 29,871,213	79.2

<b>December 31, 2016</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 35,317,018	82.9

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

If the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$298,712 (December 31, 2016 - \$353,170).

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

## CHOU RRSP FUND

(unaudited)

August 14, 2017

Dear Unitholders of Chou RRSP Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou RRSP Fund at June 30, 2017 was \$28.52 compared to \$27.48 at December 31, 2016, an increase of 3.8%; during the same period, the S&P/TSX Total Return Index increased 0.7% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was up 7.4% while the S&P/TSX Total Return Index returned 4.3%.

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

<b>June 30, 2017 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou RRSP (\$CAN)	20.9%	-2.5%	8.2%	1.9%	5.2%	8.7%
S&P/TSX (\$CAN)	11.1%	3.1%	8.7%	3.9%	7.9%	6.8%
Chou RRSP (\$US) <sup>1</sup>	20.5%	-8.6%	3.1%	-0.1%	6.3%	9.0%
S&P/TSX (\$US)	10.9%	-3.5%	3.6%	1.8%	9.1%	7.2%

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

### Factors Influencing the First Six-Month Results

The equity holdings of Blackberry, Canfor Pulp Products, Interfor Corp., and Valeant Pharmaceuticals, as well as the Bank of America warrants were the major positive contributors to the Fund’s performance in the first half of 2017.

The largest equity decliners in the same period were Reitmans, Dundee Corp., Torstar Corp., TVA Group, and Resolute Forest Products.

In the first half of the year, the Fund reduced holdings in Canfor Pulp Products, Interfor Corp. and Bank of America warrants. Equity stakes in Valeant Pharmaceuticals were increased by about 30% in the six months.

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

## Bank of America TARP Warrants

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

Security	Average Cost Base (ACB)*	Price as of Dec. 31, 2016	Price as of Jun. 30, 2017	% Increase From ACB
Bank of America Warrants (Jan. 16, 2019)	\$3.43	\$9.95	\$12.04	251%

\* As of June 30, 2017

Note: Prices are in \$USD.

The maturity date for the TARP warrants is now less than two years away. As the time element grows shorter, we believe the warrant is likely to become more speculative, and therefore we expect to reduce or eliminate our positions in the TARP warrants. If we believe that Bank of America may still be undervalued, then we will be more likely to invest in the bank's common stock.

However, it is important to note that any future decision to sell the warrants or buy the common stock will be based on our view of the markets at the time, as well as the issues which exist when we make any such investment decision.

## EXCO Resources

As of June 30, 2017, the Fund owned about US\$8.7 million worth of EXCO Resources (EXCO)'s 1.75 lien term loan (converted from the second-lien term loan held previously in Feb. 2017), with US\$12.1 million in par value. This is the largest position in the portfolio, comprising more than 10% of the assets of the Fund (at market value).

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

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

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

## **Valeant and the Pharmaceutical Industry**

As if Valeant has not given enough pain and anguish to our unitholders, we believe pharmaceutical stocks as a group are selling at attractive valuations. They generate their earnings in cash and most of them are selling at less than 10 times earnings. Some of them are down more than 50% from their highs, which is what caught our attention initially. It may look like we are adding more emotional fuel to the fire from our experience with Valeant but we look at mispriced stocks on a case-by-case basis. Given our current favorable view of the pharmaceutical industry generally, as next discussed in greater detail, we expect to invest in stocks of more than two or more pharmaceutical companies (that is, to utilize a so-called “basket approach”), in order to reduce the potential adverse effect on fund returns that could result from Food and Drug Administration (FDA) approval and patent expiration issues faced by a single company.

### *A Historical Perspective*

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

It started with the 1992 U.S. presidential election. Clinton, the Democratic president-elect at the time vowed to make drug-price containment and universal health-care a cornerstone of his administration’s plan to cut the nation’s health-care bill, and promised to unveil a sweeping reform plan within his first 100 days in office. Several other politicians also joined the assault on the pharmaceutical industry by criticizing manufacturers for “drug price gouging” on critical medicines that patients needed by raising prices as high as three times the inflation rate in the 1980s. The political message was to protect American consumers from unfair and unaffordable drug prices by taking away the industry’s carrots and replacing them with sticks.

As nervous investors feared that the incoming administration would enforce a tough pricing policy for prescription drugs, drug stocks were hammered starting in the pre-inaugural weeks, and continued to deteriorate with Clinton’s victory in November 1992 and throughout debates over Clinton’s health-care reform proposal from 1993 to 1994 (*see Figure 1*). The market psychology toward pharmaceutical stocks hit a decade low, as concerns heightened over the drug firms’ ability to maintain their profit margins in a constrained pricing environment, despite new products in the pipeline.

Some of the key drug-related legislation proposed then as part of the health-care reform included:

- A new National Health Board would determine the “reasonableness” of new drug prices based on prices charged in other countries and producer costs. They would investigate “unreasonable” drug prices, and require companies to bring prices in parity with other nations if a drug price was higher in the U.S. than abroad.

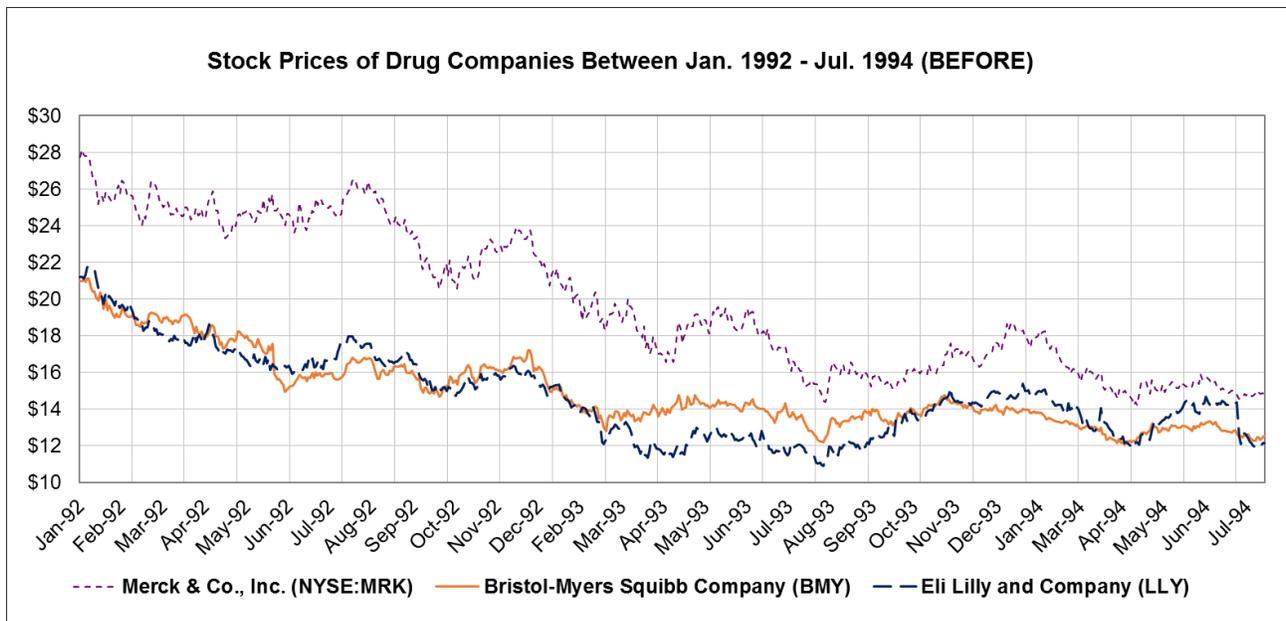
- Drug companies would have to return to Medicare a rebate of 15% of their average nationwide price of each drug paid for by Medicare.
- The Secretary of Health and Human Services could bargain down the prices of new drugs before Medicare agreed to pay for them. Failures to negotiate an acceptable price could lead to total exclusion from Medicare coverage.
- Doctors would need permission from a government official to prescribe what were deemed as unreasonably priced drugs for Medicare patients.

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

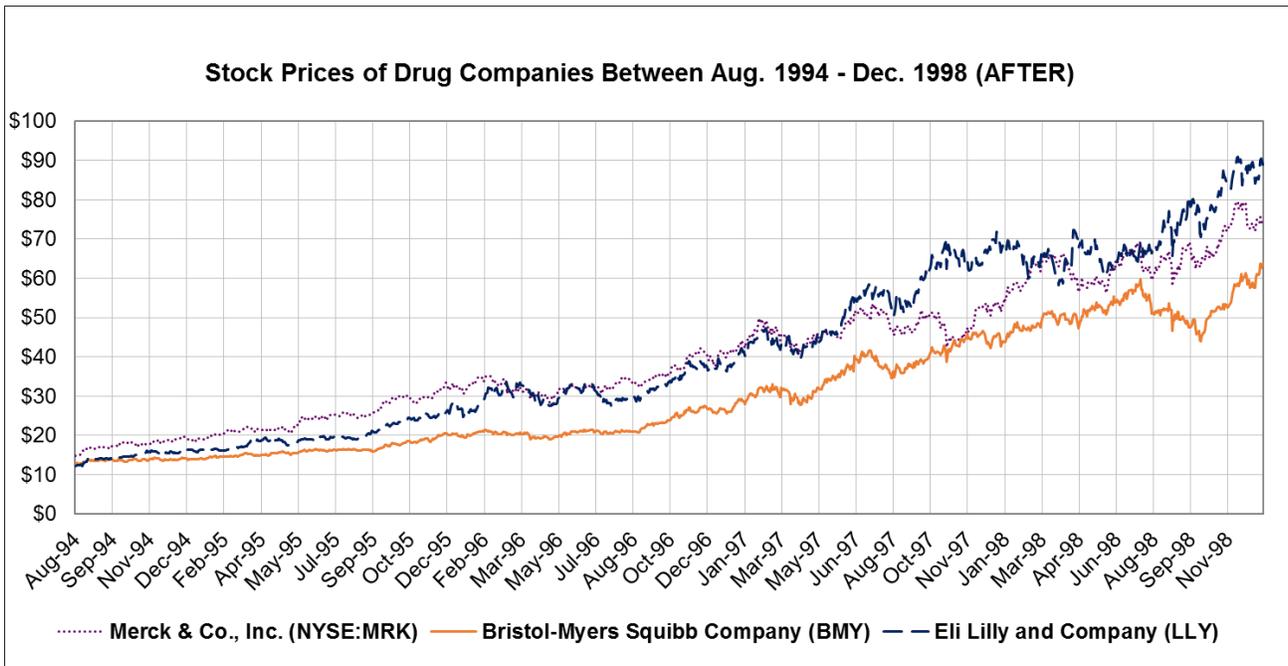
Similar political rhetoric returned in the latest U.S. election, when both Donald Trump and Hillary Clinton called out drug companies for outrageous and unjustified pricing practices. However, the historical and economic challenges faced in the 1990s still exist today, providing realistic limits to what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

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

**FIGURE 1.**



**FIGURE 2.**



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

### **Resolute Forest Products**

As of June 30, 2017, the market price of Resolute Forest Products (RFP) was at \$4.40 per share, giving a market capitalization of roughly US\$395 million dollars. As we have explained in the past, the company continues to have consolidated sales of close to US\$3.6 billion and in each of its major business segments, it is a global leader. It continues to be the biggest volume producer of wood products east of the Rockies, the third largest in North America for market pulp, the number one producer of newsprint in the world and the largest producer in North America of uncoated mechanical paper and an emerging tissue producer. The wood products segment continues to have revenues of approximately US\$500 million, while the other three segments each continue to have revenues of approximately US\$1 billion. We believe that each of the four business segments could fetch at least US\$400 million in a normal market and, as a result, RFP may be undervalued. However, we have been disappointed not just in terms of the stock price but management's ability to make sound capital allocation decisions.

## **Fuel Industries**

Fuel Industries is a company involved in digital advertising. We bought \$7.5 million of debt collateralized by media tax credits to facilitate a transaction involving a merger among Rainmaker Entertainment, Fuel Industries and another company. It was supposed to be a bridge loan for a few months until the transactions were consummated, after which we were supposed to get our money back. That was the premise. However, to cut a long story short, the transaction did not go through and we were left holding this debt longer than we had anticipated.

The collateral supporting the debt was not enough and there was a significant shortfall. Therefore, we decided to guarantee the debt personally, a situation not normally done. As a portfolio manager for the last 35-plus years, it is expected that out of 10 securities one buys, more than likely three or four will not work out. If you maintain this ratio, you will be highly successful in the long-run. Just like in baseball, if a batter gets a hit 30% of the time and can maintain that average during his professional career, he is considered highly accomplished. This includes lean periods where he is batting only 20% of the time. He does not need to bat successfully 100% of the time to be considered outstanding. The same goes for investment managers.

There are several investors who read our annual report from cover to cover, but the sharpest eagle-eyed investor would have spotted that in the 2016 annual report, there were notes to the financial statements, giving a detailed explanation of the Fuel debt and the ramifications to the Manager:

“In March 2017, the Manager agreed to unconditionally guarantee the principal loan amount of \$6,429,765 (the "Guaranteed Amount") by Fuel Industries Inc. to Chou RRSP Fund. The Manager shall pay to the Fund an amount equal to the Guaranteed Amount less the amount actually received by the Fund in respect of the Guaranteed Amount from Fuel Industries on or before 5:00 p.m. on December 31, 2018 (the "Shortfall Amount").”

On August 18, with Fuel emerging from receivership, it was time to pay the piper. The Manager bought the shortfall portion of the Fuel debt for approximately \$2.6 million. The purchase price was 100 cents on the dollar though it is most likely worth zero. We could have done it with greater fanfare by rebating roughly two years of management fees, but the essence remains that we returned \$2.6 million back to the Fund.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2017.

CREDIT DEFAULT SWAPS: None existed at June 30, 2017.

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

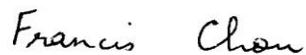
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 12 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2016 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 14, 2017, the NAVPU of a Series A unit of the Fund was \$27.65 and the cash position was approximately 2.5% of net assets. The Fund is up 0.6% from the beginning of the year. In U.S. dollars, it is up 6.1%.

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

Yours truly,



Francis Chou  
Fund Manager

# CHOU RRSP FUND

## Statements of Financial Position

June 30, 2017 (Unaudited) and December 31, 2016

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Financial assets designated at fair value through profit or loss (note 8)	\$ 68,390,778	\$ 74,050,452
Held-for-trading investments (note 8)	8,381,702	11,179,453
Cash and cash equivalents	3,306,930	452,846
Receivable for units subscribed	6,200	26,000
Due from broker	138,620	–
Guarantee asset (note 5)	2,935,439	2,935,439
Interest receivable	290,260	504,799
Total assets	83,449,929	89,148,989
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	271,696	244,145
Payable for units redeemed	282,725	139,802
Total liabilities	554,421	383,947
Net assets attributable to unitholders of redeemable units	\$ 82,895,508	\$ 88,765,042
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 76,340,868	\$ 82,832,921
Series F	6,554,640	5,932,121
	\$ 82,895,508	\$ 88,765,042
Number of units outstanding (note 4):		
Series A	2,676,740	3,013,777
Series F	227,409	214,149
Net assets attributable to unitholders of redeemable units per unit (note 4):		
Canadian dollars:		
Series A	\$ 28.52	\$ 27.48
Series F	28.82	27.70
U.S. dollars:		
Series A	21.99	20.47
Series F	22.23	20.63

See accompanying notes to financial statements.

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

Francis Chou



# CHOU RRSP FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Income:</b>		
Interest for distribution purposes and other	\$ 2,682,417	\$ 1,685,205
Dividends	222,933	335,249
Securities lending income (note 7)	27,627	3,597
Foreign currency gain (loss) on cash and other net assets	(36,777)	320,129
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on financial assets designated at fair value through profit or loss	4,331,972	1,052,963
Change in unrealized depreciation on financial assets designated at fair value through profit or loss	(4,876,388)	(17,302,411)
Change in unrealized depreciation on held-for-trading investments	(1,727,710)	(2,965,131)
Realized gain on held-for-trading investments	3,517,481	160
	4,141,555	(16,870,239)
<b>Expenses:</b>		
Management fees (note 5)	703,766	734,989
Custodian fees	68,780	69,160
Audit	7,425	17,000
Filing fees	7,240	7,280
FundSERV fees	5,430	5,460
Legal fees	1,207	1,214
Transaction costs (note 6)	45,871	30,774
Other	17,381	10,097
	857,100	875,974
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 3,284,455	\$ (17,746,213)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 3,044,298	\$ (16,910,644)
Series F	240,157	(835,569)
	\$ 3,284,455	\$ (17,746,213)
Average number of units outstanding for the period for the Series:		
Series A	3,044,298	3,291,004
Series F	240,157	169,940
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 1.07	\$ (5.14)
Series F	1.10	(4.92)

See accompanying notes to financial statements.

# CHOU RRSP FUND

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

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 82,832,921	\$ 99,334,071
Increase (decrease) in net assets attributable to unitholders of redeemable units	3,044,298	(16,910,644)
Proceeds from issue of units	634,935	1,680,298
Payments on redemption of units	(10,172,873)	(6,462,680)
Distributions of income to unitholders:		
Investment income	1,452	—
Reinvested distributions	135	1,408
Net assets attributable to unitholders of redeemable units, end of period	76,340,868	77,642,453
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	5,932,121	4,750,230
Increase (decrease) in net assets attributable to unitholders of redeemable units	240,157	(835,569)
Proceeds from issue of units	842,951	1,258,359
Payments on redemption of units	(461,169)	(592,188)
Reinvested distributions	580	152
Net assets attributable to unitholders of redeemable units, end of period	6,554,640	4,580,984
<b>Total net assets, end of period</b>	<b>\$ 82,895,508</b>	<b>\$ 82,223,437</b>

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Cash Flows

Six months ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 3,284,455	\$ (17,746,213)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	36,777	(320,129)
Net realized gain on financial assets designated at fair value through profit or loss	(7,849,453)	(1,052,963)
Change in unrealized depreciation on investments and derivatives	6,604,098	20,267,542
Change in non-cash operating working capital:		
Decrease in interest receivable	214,538	259,653
Increase in accrued expenses	27,551	2,615
Purchase of investments	(10,773,219)	(23,854,943)
Proceeds from sales of investments	20,337,380	4,196,995
Net cash generated from (used in) operating activities	11,882,127	(18,247,443)
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	2,167	(84,407)
Proceeds from redeemable units issued	1,497,686	2,649,284
Amount paid on redemption of redeemable units	(10,491,119)	(6,592,378)
Net cash used in financing activities	(8,991,266)	(4,027,501)
Foreign currency gain (loss) on cash and other net assets	(36,777)	320,129
Increase (decrease) in cash and cash equivalents	2,854,084	(21,954,815)
Cash and cash equivalents, beginning of period	452,846	33,273,551
Cash and cash equivalents, end of period	\$ 3,306,930	\$ 11,318,736
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 2,896,955	\$ 1,944,858
Dividends received, net of withholding tax	222,933	335,249
Security lending income received	27,627	3,597

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Schedule of Investments

June 30, 2017 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
BlackBerry Limited	529,040	\$ 4,122,657	\$ 6,856,358
Canfor Pulp Products Inc.	396,600	1,128,568	4,981,296
Danier Leather Inc.	679,200	6,453,777	–
Dundee Corporation, Class 'A'	300,000	3,060,351	855,000
EXCO Resources Inc.	48,763	649,976	167,575
Interfor Corporation	125,500	746,362	2,331,790
Overstock.com Inc.	151,976	3,166,144	3,212,444
Overstock.com Inc., Class 'B'	15,198	314,348	305,486
Reitmans (Canada) Limited	348,600	1,914,063	1,498,980
Reitmans (Canada) Limited, Class 'A'	690,800	3,758,099	2,970,440
Resolute Forest Products Inc.	1,224,188	13,844,859	6,985,119
Sears Canada Inc.	292,830	2,667,681	181,555
Taiga Building Products Limited	159,700	212,401	159,700
Torstar Corporation, Class 'B'	1,063,716	23,213,677	1,584,937
TVA Group Inc.	783,128	11,323,079	2,036,133
TWC Enterprises Limited	201,944	1,077,639	2,623,252
Valeant Pharmaceuticals International Inc.	470,000	20,654,971	10,544,281
Wow Unlimited Media Inc.	93,680	1,930,473	187,360
		100,239,125	47,481,706
<b>Bonds</b>			
Exco Resources Inc., term loan, October 2020	12,125,380	6,839,747	11,242,798
Fuel Industries Inc., term loans, July 14, 2017	5,569,305	5,569,305	2,633,866
Taiga Building Products Ltd., 14.000%, September 30, 2020, Callable	6,221,168	6,221,168	7,032,408
		18,630,220	20,909,072
Total long		118,869,345	68,390,778
<b>Held-for-trading</b>			
Bank of America Corporation, warrants, Series A, Jan 16, 2019	536,825	1,914,748	8,381,702
Total held-for-trading		1,914,748	8,381,702
Total investments		120,784,093	76,772,480
Transaction costs		(145,877)	–
Portfolio total		\$ 120,638,216	\$ 76,772,480

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Investment objective and strategies:

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

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

### Financial risk management:

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

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2017, the Fund invested approximately 13.56% (December 31, 2016 - 13.42%) of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. As at June 30, 2017, the Fund invested approximately 11.70% (December 31, 2016 - 12.09%) of its net assets in non-rated debt instruments. These credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment.

#### (b) Interest rate risk:

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

Debt instruments by maturity date:

	June 30, 2017	December 31, 2016
Less than 1 year	\$ 2,633,866	\$ 3,494,326
1 - 3 years	—	—
3 - 5 years	18,275,206	19,102,482
Greater than 5 years	—	—

As at June 30, 2017, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$34,976 (December 31, 2016 - \$191,025).

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

# CHOU RRSP FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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### Financial risk management (continued):

(c) **Other price risk:**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 56.32% (December 31, 2016 - 70.19%) of the Fund's net assets held at June 30, 2017 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2017, the net assets of the Fund would have increased or decreased by approximately \$2,334,459 or 2.82% (December 31, 2016 - \$3,115,153 or 3.51%) of the net assets, all other factors remaining constant.

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

(d) **Foreign currency risk:**

Currencies to which the Fund had exposure as at June 30, 2017 and December 31, 2016 are as follows:

<b>June 30, 2017</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 41,816,240	50.4

<b>December 31, 2016</b>	<b>Financial instruments</b>	<b>Percentage of net asset value</b>
United States dollar	\$ 43,390,282	48.9

The amounts in the above tables are based on the market value of the Fund's financial instruments (including cash and cash equivalents and investments). Other financial assets (including interest receivable, receivable for units subscribed and 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 June 30, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$418,162 (December 31, 2016 - \$433,903).

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

# CHOU FUNDS

## Notes to Financial Statements

Six months ended June 30, 2017 and 2016 (Unaudited)

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### 1. Formation of the Chou Funds:

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

The Funds were formed on the following dates:

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

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### 2. Significant accounting policies:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 25, 2017, which is the date on which the unaudited interim financial statements have been authorized for issue by the Manager.

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

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

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

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

Financial assets at FVTPL:

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

Financial liabilities at FVTPL:

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

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

#### (b) Fair value measurement:

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

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

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

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

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

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

Derecognition:

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

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (c) Critical accounting estimates and judgments:

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

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

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

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

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

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

#### (d) Cost of investments:

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (e) Offsetting financial instruments:

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

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

#### (f) Transaction costs:

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

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

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

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

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

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

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

#### (i) Foreign exchange:

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (j) Derivative transactions:

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

#### Warrants:

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

#### (k) Multi-series funds:

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

#### (l) Valuation of Fund units:

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

#### (m) Securities lending income:

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the statements of comprehensive income (loss) of the Funds and is recognized on an accrual basis. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (note 7).

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

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

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

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

#### (p) Future accounting standards:

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

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

The Manager has commenced their evaluation of the impact of this standard on each of its financial instruments. Based upon the Funds existing financial instruments and related accounting policies at June 30, 2017, the principal areas impacted are: classification of financial assets, impairment of financial assets, and presentation of fair value changes for certain financial liabilities designated at FVTPL. IFRS 9 also requires new disclosures.

The Funds will adopt IFRS 9, in its combined financial statements for the annual period beginning on January 1, 2018, the mandatory effective date.

The Funds expect to complete the assessment of the impact of adopting IFRS 9 during the second half of 2017 and are not able at this time to estimate reasonably the impact that the standard will have on the financial statements.

### 3. Financial instruments and risk management:

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

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

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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### 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 Funds' main credit risk concentration is in debt securities and trading derivative instruments which are disclosed in the respective Funds' schedule of investments. All transactions in securities are settled or paid for upon delivery through brokers. As such, credit risk is considered minimal in the Funds on investment transactions, as delivery of securities sold is made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

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

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

#### (b) Liquidity risk:

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (c) Market risk:

##### (i) Interest rate risk:

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

##### (ii) Other price risk:

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

##### (iii) Currency risk:

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

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### 4. Holders of redeemable units:

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

	Series A		Series F	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Chou Associates Fund</b>				
Units outstanding, beginning of period	3,650,048	4,053,774	409,648	396,647
Add units issued during the period	22,439	144,963	55,098	96,166
Deduct units redeemed during the period	(320,377)	(328,134)	(73,772)	(82,661)
Units outstanding before income distribution	3,352,110	3,870,603	390,974	410,152
Add units issued on reinvested income	5	1	1	–
Units outstanding, end of period	3,352,115	3,870,604	390,975	410,152
<b>Chou Asia Fund</b>				
Units outstanding, beginning of period	1,995,196	2,320,612	151,314	149,073
Add units issued during the period	9,253	30,124	32,756	22,247
Deduct units redeemed during the period	(196,047)	(223,525)	(42,780)	(14,533)
Units outstanding before income distribution	1,808,402	2,127,211	141,290	156,787
Add units issued on reinvested income	–	10	–	7
Units outstanding, end of period	1,808,402	2,127,221	141,290	156,794
<b>Chou Europe Fund</b>				
Units outstanding, beginning of period	1,253,703	1,505,731	153,653	316,203
Add units issued during the period	29,360	24,290	5,875	11,199
Deduct units redeemed during the period	(132,321)	(191,311)	(76,538)	(86,958)
Units outstanding before income distribution	1,150,742	1,338,710	82,990	240,444
Add units issued on reinvested income	–	–	–	–
Units outstanding, end of period	1,150,742	1,338,710	82,990	240,444

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

	Series A		Series F	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Chou Bond Fund</b>				
Units outstanding, beginning of period	4,432,708	4,515,187	403,615	358,475
Add units issued during the period	50,509	206,854	23,214	62,884
Deduct units redeemed during the period	(326,337)	(305,617)	(80,801)	(45,223)
Units outstanding before income distribution	4,156,880	4,416,424	346,028	376,136
Add units issued on reinvested income	–	–	–	–
Units outstanding, end of period	4,156,880	4,416,424	346,028	376,136
<b>Chou RRSP Fund</b>				
Units outstanding, beginning of period	3,013,777	3,379,086	214,149	161,443
Add units issued during the period	22,199	65,337	29,409	49,688
Deduct units redeemed during the period	(359,241)	(252,648)	(16,170)	(23,504)
Units outstanding before income distribution	2,676,735	3,191,775	227,388	187,627
Add units issued on reinvested income	5	48	21	5
Units outstanding, end of period	2,676,740	3,191,823	227,409	187,632

### 5. Related party transactions:

#### Management fees:

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

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

	June 30,	
	2017	2016
Chou Associates Fund	\$ 3,465,490	\$ 3,485,904
Chou Asia Fund	295,549	309,841
Chou Europe Fund	106,674	143,959
Chou Bond Fund	260,467	236,854
Chou RRSP Fund	703,766	734,989

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

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

	June 30, 2017	December 31, 2016
Chou Associates Fund	\$ 495,078	\$ 547,984
Chou Asia Fund	44,024	44,588
Chou Europe Fund	15,999	17,059
Chou Bond Fund	35,541	40,045
Chou RRSP Fund	99,648	109,545

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

As at June 30, 2017, the following amounts of Series A redeemable units were held by employees of the Manager. No amounts of Series F redeemable units were held by employees of the Manager.

	June 30, 2017	December 31, 2016
Chou Associates Fund	178,575	178,401
Chou Asia Fund	405,999	405,999
Chou Europe Fund	535,761	535,761
Chou Bond Fund	2,305,784	2,305,784
Chou RRSP Fund	318,441	318,441

#### (a) Chou Associates Fund:

As at June 30, 2017, 5.3% of Series A redeemable units (December 31, 2016 - 5.0%) were held by employees of the Manager.

#### (b) Chou Asia Fund:

As at June 30, 2017, 22.5% of Series A redeemable units (December 31, 2016 - 20.3%) were held by employees of the Manager.

#### (c) Chou Europe Fund:

As at June 30, 2017, 46.6% of Series A redeemable units (December 31, 2016 - 42.7%) were held by employees of the Manager.

#### (d) Chou Bond Fund:

As at June 30, 2017, 55.5% of Series A redeemable units (December 31, 2016 - 56.5%) were held by employees of the Manager.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (e) Chou RRSP Fund:

As at June 30, 2017, 11.9% of Series A redeemable units (December 31, 2016 - 10.9%) were held by employees of the Manager.

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

#### Investments:

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

#### Chou Management Inc. Guarantee:

In March 2017, the Manager agreed to unconditionally guarantee the principal loan amount of \$6,429,765 (the "Guaranteed Amount") by Fuel Industries Inc. to Chou RRSP Fund. The Manager shall pay to the Fund an amount equal to the Guaranteed Amount less the amount actually received by the Fund in respect of the Guaranteed Amount from Fuel Industries on or before 5:00 p.m. on December 31, 2018 (the "Shortfall Amount"). The Guaranteed Amount is secured by all past, present and future entitlements of Fuel Industries Inc. to receive Ontario Interactive Digital Media Tax Credits. During the six months ended June 30, 2017, the 2013 tax credit was collected and \$860,460 was applied against the outstanding balance. The current Shortfall Amount is estimated to be \$2,935,439 (December 31, 2016 - \$2,935,439) as reflected in the write down of Fuel term loan investment. The expected amount is an estimate and actual amount to be received at December 31, 2018 ("Realization Date") may differ.

### 6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the six months ended June 30, 2017 and 2016 are as follows:

	2017	June 30, 2016
Chou Associates Fund	\$ 257,196	\$ 188,086
Chou Asia Fund	3,597	-
Chou Europe Fund	8,554	14,668
Chou Bond Fund	5,414	14,668
Chou RRSP Fund	45,871	30,774

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### 7. Securities lending:

The Funds have entered into a securities lending program with CIBC Mellon. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include 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 June 30, 2017 and December 31, 2016 are as follows:

<b>June 30, 2017</b>	<b>Market value of securities on loan</b>	<b>Market value of collateral received</b>
Chou Associates Fund	\$ 31,518,762	\$ 33,350,248
Chou Asia Fund	6,072,445	6,495,981
Chou Europe Fund	1,165,473	1,224,172
Chou Bond Fund	1,365,969	1,446,009
Chou RRSP Fund	1,812,175	1,903,740

<b>December 31, 2016</b>	<b>Market value of securities on loan</b>	<b>Market value of collateral received</b>
Chou Associates Fund	\$ 43,054,579	\$ 45,372,346
Chou Asia Fund	3,710,933	4,000,930
Chou Europe Fund	452,079	478,772
Chou RRSP Fund	5,456,817	6,169,131

The tables below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income (loss) for the six months ended June 30, 2017 and June 30, 2016. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the Fund, less any taxes withheld and amounts due to parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

#### Chou Associates Fund:

	<b>June 30,</b>			
	<b>2017</b>		<b>2016</b>	
Gross securities lending revenue	\$ 4,195,911	100%	\$ 2,018,991	100%
Withholding taxes	(1,255,027)	(30)%	(290,501)	(10)%
Agent fees	(588,176)	(10)%	(566,484)	(30)%
Securities lending revenue	\$ 2,352,708	60%	\$ 1,162,006	60%

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### 7. Securities lending (continued):

#### Chou Asia Fund:

	June 30,					
	2017			2016		
Gross securities lending revenue	\$	85,965	100 %	\$	17,486	100 %
Withholding taxes		–	–		(3,488)	(20)%
Agent fees		(17,193)	(20)%		(48)	–
Securities lending revenue	\$	68,772	80 %	\$	13,950	80 %

#### Chou Europe Fund:

	June 30,					
	2017			2016		
Gross securities lending revenue	\$	45	100 %	\$	111	100 %
Withholding taxes		–	–		(16)	(10)%
Agent fees		(9)	(20)%		(33)	(30)%
Securities lending revenue	\$	36	80 %	\$	62	60 %

#### Chou Bond Fund:

	June 30,					
	2017			2016		
Gross securities lending revenue	\$	2,920	100 %	\$	–	–
Withholding taxes		(655)	(20)%		–	–
Agent fees		(453)	(10)%		–	–
Securities lending revenue	\$	1,812	60 %	\$	–	–

#### Chou RRSP Fund:

	June 30,					
	2017			2016		
Gross securities lending revenue	\$	36,018	100 %	\$	5,582	100 %
Withholding taxes		(1,487)	–		(899)	(20)%
Agent fees		(6,904)	(20)%		(1,086)	(20)%
Securities lending revenue	\$	27,627	80 %	\$	3,597	60 %

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

### 8. Fair value measurement:

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

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

#### (a) Chou Associates Fund:

June 30, 2017	Level 1	Level 2	Level 3	Total
Equities	\$ 291,987,821	\$ –	\$ 864,920	\$ 292,852,741
Bonds	–	52,893,995	–	52,893,995
Held-for-trading assets	69,857,462	–	–	69,857,462
Total	\$ 361,845,283	\$ 52,893,995	\$ 864,920	\$ 415,604,198

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	\$ 265,395,937	\$ –	\$ 982,162	\$ 266,378,099
Bonds	–	56,959,777	–	56,959,777
Held-for-trading assets	95,815,629	–	–	95,815,629
Total	\$ 361,211,566	\$ 56,959,777	\$ 982,162	\$ 419,153,505

During the six months ended June 30, 2017 and year ended December 31, 2016, there were no significant transfers between Level 1, Level 2, and Level 3.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

Fair value measurements using Level 3 inputs:

	<b>Equities</b>	<b>Total</b>
Balance, December 31, 2016	\$ 982,162	\$ 982,162
Change in unrealized appreciation (depreciation) in value of investments	(117,242)	(117,242)
<b>Balance, June 30, 2017</b>	<b>\$ 864,920</b>	<b>\$ 864,920</b>

During the six months ended June 30, 2017, there were no significant transfers between Level 1, Level 2 and Level 3. During the year ended December 31, 2016, there was a transfer out of Level 3 investments due to the sale of an investment.

Level 3 investments held at June 30, 2017 and December 31, 2016 were valued using comparable securities.

### (b) Chou Asia Fund:

<b>June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 14,185,036	\$ –	\$ –	\$ 14,185,036

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 11,591,550	\$ –	\$ –	\$ 11,591,550

During the six months ended June 30, 2017, , there were no significant transfers between Level 1, Level 2, and Level 3. During the year ended December 31, 2016, \$1,840,835 was transferred from Level 3 to Level 1 as the underlying security became publicly listed.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (c) Chou Europe Fund:

<b>June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 11,674,447	\$ –	\$ –	\$ 11,674,447

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 11,230,159	\$ –	\$ –	\$ 11,230,159

During the six months ended June 30, 2017 and year ended December 31, 2016, there were no significant transfers between Level 1, Level 2 and Level 3.

#### (d) Chou Bond Fund:

<b>June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 9,642,729	\$ –	\$ –	\$ 9,642,729
Bonds	–	34,158,766	–	34,158,766
Held-for-trading assets	–	–	10,397	10,397
<b>Total</b>	<b>\$ 9,642,729</b>	<b>\$ 34,158,766</b>	<b>\$ 10,397</b>	<b>\$ 43,811,892</b>

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 6,405,731	\$ –	\$ –	\$ 6,405,731
Bonds	–	30,283,070	–	30,283,070
Held-for-trading assets	–	–	10,765	10,765
<b>Total</b>	<b>\$ 6,405,731</b>	<b>\$ 30,283,070</b>	<b>\$ 10,765</b>	<b>\$ 36,699,566</b>

During the year ended December 31, 2016, \$10,765 of private warrants were issued to the Fund as a part of a corporate action.

During the six months ended June 30, 2017 and year ended December 31, 2016, there were no significant transfers between Level 1, Level 2, and Level 3.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

Fair value measurements using Level 3 inputs:

Level 3 securities were valued using broker quotes.

	<b>Equities</b>	<b>Total</b>
Balance, December 31, 2016	\$ 10,765	\$ 10,765
Change in unrealized appreciation (depreciation) in value of investments	(368)	(368)
Balance, June 30, 2017	\$ 10,397	\$ 10,397

### (e) Chou RRSP Fund:

<b>June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 46,689,179	\$ 487,041	\$ 305,486	\$ 47,481,706
Bonds	–	18,275,206	2,633,866	20,909,072
Held-for-trading assets	8,381,702	–	–	8,381,702
Total	\$ 55,070,881	\$ 18,762,247	\$ 2,939,352	\$ 76,772,480

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 51,106,749	\$ –	\$ 346,895	\$ 51,453,644
Bonds	–	19,102,482	3,494,326	22,596,808
Held-for-trading assets	11,179,453	–	–	11,179,453
Total	\$ 62,286,202	\$ 19,102,482	\$ 3,841,221	\$ 85,229,905

During the six months ended June 30, 2017 and year ended December 31, 2016, there were no significant transfers between Level 1, Level 2, and Level 3.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

Fair value measurements using Level 3 inputs:

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

	Equities	Bonds	Total
Balance, December 31, 2016	\$ 346,895	\$ 3,494,326	\$ 3,841,221
Proceeds from sale during the year	–	(860,460)	(860,460)
Change in unrealized appreciation (depreciation) in value of investments	(41,409)	–	(41,409)
Balance, June 30, 2017	\$ 305,486	\$ 2,633,866	\$ 2,939,352

During the six months ended June 30, 2017, the 2013 tax credit was collected and \$860,460 was applied against the outstanding balance.

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

#### (a) Chou Associates Fund:

	2017	June 30, 2016
Financial instruments at FVTPL:		
Held-for-trading	\$ (19,775,452)	\$ (20,926,811)
Designated at inception	33,842,108	(76,681,762)
	\$ 14,066,656	\$ (97,608,573)

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

#### (b) Chou Asia Fund:

	2017	June 30, 2016
Financial instruments at FVTPL:		
Held-for-trading	\$ –	\$ (2,478)
Designated at inception	3,435,507	(3,249)
	\$ 3,435,507	\$ (5,727)

#### (c) Chou Europe Fund:

	2017	June 30, 2016
Financial instruments at FVTPL:		
Held-for-trading	\$ –	\$ (525,687)
Designated at inception	1,143,610	(4,055,130)
	\$ 1,143,610	\$ (4,580,817)

#### (d) Chou Bond Fund:

	2017	June 30, 2016
Financial instruments at FVTPL:		
Held-for-trading	\$ (367)	\$ (1,049,071)
Designated at inception	(1,646,339)	(1,681,974)
	\$ (1,646,706)	\$ (2,731,045)

#### (e) Chou RRSP Fund:

	2017	June 30, 2016
Financial instruments at FVTPL:		
Held-for-trading	\$ (1,727,710)	\$ (2,964,971)
Designated at inception	5,841,638	(13,908,865)
	\$ 4,113,928	\$ (16,873,836)

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2017 and 2016 (Unaudited)

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

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

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

### 10. Income taxes:

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

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

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

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	2017	June 30, 2016
Chou Europe Fund:		
Capital loss carryforward	\$ 4,130,112	\$ 3,265,651
Non-capital loss carryforward	127,668	–
Chou Bond Fund:		
Capital loss carryforward	11,885,084	10,137,200
Chou RRSP Fund:		
Capital loss carryforward	133,455	–

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### 11. Subsequent events:

In August 2017, with Fuel Industries emerging from receivership, the Manager purchased \$2,607,488 of the Fuel Industries' term loan, thereby reducing the guarantee asset by the same amount. The purchase is to cover for a portion of the potential shortfall between the outstanding loan amount and the estimated valuation of the remaining Ontario Interactive Digital Media Tax Credits.

## **NOTES**

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

**CHOU ASIA FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,850
Dec.31, 2005	12,678
Dec.31, 2006	14,598
Dec.31, 2007	16,972
Dec.31, 2008	13,979
Dec.31, 2009	17,015
Dec.31, 2010	18,786
Dec.31, 2011	17,931
Dec.31, 2012	17,609
Dec.31, 2013	21,799
Dec.31, 2014	23,472
Dec.31, 2015	24,760
Dec.31, 2016	25,284
<b>June 30, 2017</b>	<b><u>\$27,591</u></b>

**CHOU EUROPE FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,361
Dec.31, 2005	12,650
Dec.31, 2006	14,002
Dec.31, 2007	11,881
Dec.31, 2008	6,655
Dec.31, 2009	8,962
Dec.31, 2010	8,885
Dec.31, 2011	8,451
Dec.31, 2012	10,753
Dec.31, 2013	15,199
Dec.31, 2014	15,342
Dec.31, 2015	15,629
Dec.31, 2016	12,705
<b>June 30, 2017</b>	<b><u>\$13,749</u></b>

**CHOU BOND FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2005	\$10,000
Dec.31, 2006	12,200
Dec.31, 2007	11,870
Dec.31, 2008	7,396
Dec.31, 2009	10,534
Dec.31, 2010	13,980
Dec.31, 2011	11,408
Dec.31, 2012	12,884
Dec.31, 2013	15,944
Dec.31, 2014	17,502
Dec.31, 2015	16,875
Dec.31, 2016	18,411
<b>June 30, 2017</b>	<b><u>\$17,514</u></b>

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

**CHOU RRSP FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,818
Dec.31, 1988	12,281
Dec.31, 1989	14,350
Dec.31, 1990	12,722
Dec.31, 1991	13,284
Dec.31, 1992	14,500
Dec.31, 1993	16,727
Dec.31, 1994	14,961
Dec.31, 1995	17,808
Dec.31, 1996	21,735
Dec.31, 1997	32,741
Dec.31, 1998	38,806
Dec.31, 1999	36,217
Dec.31, 2000	42,188
Dec.31, 2001	49,370
Dec.31, 2002	65,095
Dec.31, 2003	72,658
Dec.31, 2004	82,362
Dec.31, 2005	95,294
Dec.31, 2006	104,479
Dec.31, 2007	94,817
Dec.31, 2008	54,629
Dec.31, 2009	69,818
Dec.31, 2010	102,367
Dec.31, 2011	81,150
Dec.31, 2012	108,860
Dec.31, 2013	132,029
Dec.31, 2014	150,763
Dec.31, 2015	131,417
Dec.31, 2016	126,719
June 30, 2017	<b><u>\$131,501</u></b>

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

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

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