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

**SEMI-ANNUAL REPORT 2010**

## CHOU ASSOCIATES FUND
**(Unaudited)**

**Illustration of an assumed investment of $10,000 in Canadian dollars**

| Period ended | Value of initial $10,000 investment | Value of cumulative reinvested capital distributions | Value of cumulative reinvested dividends | Total value of shares |
|---|---|---|---|---|
| Dec.31, 1986 | $10,000 | 0 | 0 | 10,000 |
| Dec.31, 1987 | 9,259 | 506 | 737 | 10,502 |
| Dec.31, 1988 | 9,765 | 1,129 | 1,106 | 12,001 |
| Dec.31, 1989 | 10,861 | 1,601 | 1,783 | 14,244 |
| Dec.31, 1990 | 8,973 | 1,322 | 2,427 | 12,722 |
| Dec.31, 1991 | 10,213 | 2,269 | 3,198 | 15,681 |
| Dec.31, 1992 | 12,030 | 2,843 | 3,944 | 18,817 |
| Dec.31, 1993 | 13,343 | 4,147 | 4,374 | 21,863 |
| Dec.31, 1994 | 12,863 | 3,998 | 4,440 | 21,300 |
| Dec.31, 1995 | 15,281 | 6,960 | 5,663 | 27,904 |
| Dec.31, 1996 | 18,370 | 8,367 | 7,498 | 34,235 |
| Dec.31, 1997 | 21,068 | 14,882 | 12,085 | 48,035 |
| Dec.31, 1998 | 23,975 | 19,892 | 15,320 | 59,187 |
| Dec.31, 1999 | 21,216 | 18,470 | 13,803 | 53,489 |
| Dec.31, 2000 | 21,345 | 18,891 | 17,731 | 57,967 |
| Dec.31, 2001 | 23,975 | 24,377 | 22,045 | 70,397 |
| Dec.31, 2002 | 29,775 | 33,657 | 28,072 | 91,504 |
| Dec.31, 2003 | 30,194 | 36,111 | 28,467 | 94,773 |
| Dec.31, 2004 | 32,241 | 40,446 | 30,632 | 103,319 |
| Dec.31, 2005 | 36,014 | 45,180 | 36,268 | 117,462 |
| Dec.31, 2006 | 42,194 | 52,933 | 44,384 | 139,511 |
| Dec.31, 2007 | 36,819 | 46,191 | 42,248 | 125,258 |
| Dec.31, 2008 | 24,843 | 31,166 | 32,544 | 88,553 |
| Dec.31, 2009 | 31,518 | 39,539 | 43,797 | 114,854 |
| June 30, 2010 | | | | **$ 120,137** |

NOTE: Rates of return are historical total returns including 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 which 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.

# CHOU FUNDS
## PERFORMANCE OF THE FUNDS
## FOR THE PERIOD ENDED JUNE 30, 2010
## (Unaudited)

**Chou Associates Fund**

| | |
|---|---|
| Series A $CAN | 4.6% |
| Series A $US | 3.2% |
| Series F $CAN | 4.9% |
| Series F $US | 3.5% |

**Chou Asia Fund**

| | |
|---|---|
| Series A $CAN | 4.0% |
| Series A $US | 2.6% |
| Series F $CAN | 4.3% |
| Series F $US | 2.9% |

**Chou Europe Fund**

| | |
|---|---|
| Series A $CAN | -6.1% |
| Series A $US | -7.3% |
| Series F $CAN | -5.8% |
| Series F $US | -7.1% |

**Chou Bond Fund**

| | |
|---|---|
| Series A $CAN | 21.7% |
| Series A $US | 20.1% |
| Series F $CAN | 21.8% |
| Series F $US | 20.2% |

**Chou RRSP Fund**

| | |
|---|---|
| Series A $CAN | 18.7% |
| Series A $US | 17.1% |
| Series F $CAN | 19.0% |
| Series F $US | 17.4% |

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# CHOU ASSOCIATES FUND

August 13, 2010

Dear Unitholders of Chou Associates Fund,

The net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Associates Fund at June 30, 2010 was $71.61 compared to $68.46 at December 31, 2009, an increase of 4.6%, while the S&P 500 Total Return Index was down 5.2%. In $US, a Series A unit of Chou Associates Fund returned 3.2% while the S&P 500 Total Return Index was down 6.6%.

The table shows our 6 month, 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

| June 30, 2010 (Series A) | 6 Month | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
|---|---|---|---|---|---|---|
| Chou Associates ($CAN) | 4.6% | 21.1% | -4.9% | 1.6% | 8.2% | 11.2% |
| S&P 500 ($CAN) | -5.2% | 4.6% | -9.8% | -3.6% | -4.8% | 4.4% |
| Chou Associates ($US)[1] | 3.2% | 32.7% | -4.8% | 4.5% | 11.8% | 13.2% |
| S&P 500 ($US) | -6.6% | 14.4% | -9.8% | -0.8% | -1.6% | 6.2% |

Rates of return are historical total returns including 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 which 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 Months Results

During the first six months of 2010 there was wide-spread fear of a sovereign debt crisis arising in some European countries, including Portugal, Ireland, Greece and Spain (PIGS). This led to a crisis of confidence, which resulted in an increase in bond yields and in prices of credit default swaps on several European countries' government bonds. Concern about rising government deficits and debt levels across the globe, together with a wave of downgrades to European Government debt, have created uncertainty in world financial markets, including the United States and Canada.

The debt crisis has been mostly centered on recent events in Greece and there are concerns that Greece and possibly some other troubled European countries may be unable to finance the rising cost of their government debt. In late April 2010, amidst fears of default by the Greek government, Standard & Poor decreased Greece's debt rating to the first level of junk bond status. Following the downgrade, the yield on Greek government two-year bonds rose to 15.9%, up from 6% two weeks earlier.

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

Positive contributors to the Fund's performance were Berkshire Hathaway, Biovail, Overstock.com, Primus Telecommunications debts and Abitibi-Consolidated debts.

Securities that declined the most in the first half of 2010 were King Pharmaceuticals, Sears Holdings, Sanofi-Aventis, and Level 3 Communications debts.

**General Comments on the Market**

NON-INVESTMENT GRADE AND INVESTMENT GRADE BONDS ARE NOW FULLY PRICED: Non-investment grade bonds have rallied tremendously from their lows in March 2009, and at current prices we believe they are close to fully priced. For example, three and a half years ago the spread between U.S. corporate high yield debt and U.S. treasuries was 311 basis points. Currently, it is about 696 basis points, down from its peak of over 1,900 basis points in December 2008. (Source: JP Morgan).

Similarly, we believe that investment grade bonds are now close to fully priced.

However, when compared to corporate bonds, U.S. treasuries are in bubble territory. In our opinion, this is the worst time to hold cash and short-term treasuries unless you believe we are headed into a 1930s style depression. And if you believe that you should redeem all your Fund units.

In equities, we believe the financial, retail and pharmaceutical sectors are undervalued.

REVISITING THE BANKS: In the 2006 annual report, we noted our alarm at the cavalier approach of financial institutions with regard to their lending standards, particularly to subprime borrowers. We also expressed concern with the widespread use of derivatives by financial institutions. In the annual letter to unitholders, dated March 2, 2007, I wrote:

> **Derivatives and financial institutions**
>
> We remain a keen and interested observer of derivative instruments. Derivative instruments are financial instruments created by market participants so that they can trade and/or manage more easily the asset upon which these instruments are based. Derivatives are not asset classes unto themselves. Their values are derived solely from an underlying interest, which may be a commodity such as wheat or a financial product such as a bond or stock, a foreign currency, or an economic/stock index.
>
> According to the Bank for International Settlements, contracts outstanding worldwide for derivatives at the end of June 30, 2006 rose to $370 *trillion*. We are alarmed by the exponential rise in the use of derivatives. No one knows how dangerous these instruments can be. They have not been stress tested. However we cannot remain complacent. We believe the risk embedded in derivative instruments is pervasive and most likely not limited or localized to a particular industry. Financial institutions are most vulnerable when (not if) surprises occur – and when they occur they are almost always negative.
>
> As a result, we have not invested heavily in financial institutions although at times their stock prices have come down to buy levels. Some 30 years ago, when an investor looked at a bank, he or she knew what the items on the balance sheet

> meant. The investor understood what criteria the bankers used to loan out money, how to interpret the loss reserving history, and how to assess the quality and sustainability of revenue streams and expenses of the bank to generate reasonable earnings.
>
> That was 30 years ago and you can see how easy it was to evaluate a bank.
>
> …. Now, when an investor examines a bank's financials, he or she is subjected to reams of information and numbers but has no way of ascertaining with a high degree of certainty how solid the assets are, or whether the liabilities are all disclosed, or even known, much less properly priced. As the investor digs deeper into the footnotes, instead of becoming enlightened, more doubts may surface about the true riskiness of the bank's liabilities. Those liabilities could be securitized, hidden in derivative instruments or morphed into any number of other instruments that barely resemble the original loans.
>
> It is meant to show just how creative participants have been in producing new derivative products, with little regard for a sound understanding of their leverage and true risk characteristics. We may be witnessing a 'tragedy of the commons' where the search for quick individual profits is causing a system-wide increase in risk and reckless behaviour.
>
> **Sub-prime mortgage lenders**
>
> Some of the greatest excesses of easy credit were committed by sub-prime mortgage lenders. Credit standards were so lax and liberal that homeowners didn't even need to produce proof of ownership to be able to borrow up to 100% or more of the appraised value of their houses.
>
> Companies with the most liberal lending practices have started to report serious, even crippling, financial problems. Some optimists believe that the worst is over. However, they may be in for a surprise. Instead of it being the darkest hour before the dawn, it could be the darkest hour before pitch black. It will take a while (and maybe a long while) for the excesses to wring themselves out of the system.

Well, starting in 2007, financial institutions went through a cataclysm. Directly or indirectly, almost all of them had to be bailed out by the U.S. government. Looking back at the crisis, this is what we have observed:

1) The U.S. government will not let major financial institutions fail.

2) The financial institutions that survive will be the ultimate beneficiaries of any recovery in the economy.

3) Interest rates will be kept at artificially low levels for the foreseeable future. The spreads between what the banks are paying for deposits and borrowings in the market (like FDIC insured), and what they can lend at is enormous. After being severely burned, they have tightened their lending criteria and have been extremely cautious with their lending practices. In general, the quality of loans now being made are quite high and for the first time in many years, banks are being paid handsomely according to the risks they are taking.

4) Financial institutions in general are hoarding capital. This will provide them with ample cushion to absorb losses if a double dip recession were to occur.

5) The books of financial institutions were carefully examined by all kinds of government agencies, including regulators, before the government allowed them to repay the U.S. Treasury under the Troubled Asset Relief Program (TARP).

6) Most of the big banks are selling below 10 times their potential earning power in the future.

**An Interesting Way to Invest in Banks**

*Please note: the investment described below is the view of the writer and should not be seen as a recommendation.*

One of the more interesting ways to invest in the better capitalized banks is through the stock warrants that were issued to the U.S. Treasury by the banks when they received funds under TARP. The stock warrants give the holder the right to buy the bank's stock at a specific price. When the banks repaid TARP funds to the U.S. Treasury, the U.S. Treasury either sold the stock warrants back to the banks or they auctioned them to the public.

So, what is so unique about these stock warrants?

1) They are long dated, with most expiring in 2018 or 2019. This time frame of eight- plus years allows banks to grow their intrinsic value to a high enough level to have an appreciable impact on the strike price of the stock warrant.

2) The strike price is adjusted downward for any quarterly dividend that exceeds a set price. Normally, you don't see that in a stock warrant. This is a truly stringent condition. In this case we should give the government credit for extracting a pound of flesh. An example: for Bank of America, class 'A' warrants, the strike price is adjusted downward for any quarterly dividend paid exceeding one cent a share.

3) Many of the banks have excess capital on their balance sheet. When the economy settles down, we expect the banks to use this excess capital either for buybacks or a one-time special dividend that may reduce the strike price on the stock warrants if this provision applies.

4) The concerns over financial reform and its ultimate impact on the earning power of the banks may be somewhat exaggerated. We believe the banks will most likely be able to pass the majority of the costs to customers. For an economy to flourish we need sound financial institutions that can generate reasonable profits.

5) Investing in financial institutions requires a leap of faith. Mind you, this leap of faith is no greater than those we make on any company's future prospects, its position in the industry and how well it will do in a future economy. Looking forward, as each year goes by, the quality of earnings of the banks should be higher, the books should be cleaner, the risks will be lower and management will be far more risk averse. Too bad we had to go through so much turmoil to get there.

Below, August 13, 2010 prices of some banks stock warrants.

| **Warrants** | **Warrant Price** | **Warrant Strike Price** | **Stock Price** | **Expiration Date** | **Strike Price Adjustment** |
|---|---|---|---|---|---|
| JP Morgan | $12.51 | $42.42 | $37.50 | 10/28/2018 | Quarterly Dividend over $0.38 |
| Capital One | $14.50 | $42.13 | $38.82 | 11/14/2018 | Quarterly Dividend over $0.375 |
| Bank of America, class B | $2.59 | $30.79 | $13.23 | 10/28/2018 | Quarterly Dividend over $0.32 |
| Bank of America, class A | $7.12 | $13.30 | $13.23 | 1/16/2019 | Quarterly Dividend over $0.01 |
| PNC | $11.50 | $67.33 | $55.09 | 12/31/2018 | Quarterly Dividend over $0.66 |
| Wells Fargo | $7.77 | $34.01 | $25.84 | 10/28/2018 | Quarterly Dividend over $0.34 |
| Comerica | $12.20 | $29.40 | $35.87 | 11/14/2018 | Quarterly Dividend over $0.66 |
| Valley National | $2.24 | $17.77 | $13.48 | 11/14/2018 | Quarterly Dividend over $0.1814 |

6) Even so, everything is not hunky dory for the banks. Banks face many issues and challenges. I have listed a few here:

a) We still do not fully understand or trust the numbers
b) Financial regulatory reform may reduce earning power
c) New Basel rules may require more capital and reduce profits
d) There may be a double dip recession
e) The unemployment rate may go higher and create more defaults
f) Commercial real estate prices may fall dramatically
g) Banks are still not marking loans in their books properly
h) Residential real estate prices may fall further
i) States and municipalities are in bad shape

Our investing horizon is long-term - eight years or more for these bank warrants. Over that period, we believe the odds are it will work out to be decent investment - more so for the better capitalized banks. We view it as the glass being more than half full rather than being more than half empty.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2010.

CREDIT DEFAULT SWAPS: None were purchased in the first half of 2010.

CONSTANT MATURITY SWAPS: None were purchased in the first half of 2010.

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

CHANGE IN MINIMUM INVESTMENT: The minimum amount to invest in the Fund is now $5,000 and subsequent investment is $500.

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2009 IRC Annual Report is available on our website www.choufunds.com.

As of August 13, 2010, the NAV of a Series A unit of the Fund was $70.29 and the cash position was 11.8% of net assets. The Fund is up 2.7% from the beginning of the year. In $US, it is up 3.3%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

# CHOU ASSOCIATES FUND

## STATEMENT OF NET ASSETS

### AS AT JUNE 30, 2010

### (Unaudited)

| | 2010 | DEC 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 54,764,713 | $ 9,916,039 |
| Accrued interest and dividend income | 3,245,856 | 3,587,058 |
| Receivable for units subscribed | 235,132 | 91,590 |
| Due from broker | 265,100 | 261,605 |
| Investments, at fair value | 439,069,966 | 485,596,538 |
| | 497,580,767 | 499,452,830 |
| **LIABILITIES** | | |
| Accrued expenses | 840,121 | 794,856 |
| Payable for units redeemed | 1,242,796 | 804,629 |
| Distributions payable | - | 317,796 |
| Liability for investment purchased | 3,091,458 | - |
| | 5,174,375 | 1,917,281 |
| **NET ASSETS** | $ 492,406,392 | $ 497,535,549 |
| | | |
| **NET ASSETS, BY SERIES** | | |
| Series A | $ 464,241,179 | $ 468,946,411 |
| Series F | 28,165,213 | 28,589,138 |
| | $ 492,406,392 | $ 497,535,549 |
| | | |
| **NUMBER OF UNITS OUTSTANDING** (Note 4) | | |
| Series A | 6,493,890 | 6,861,528 |
| Series F | 393,638 | 419,050 |
| | | |
| **NET ASSET VALUE PER UNIT** | | |
| **Canadian dollars** | | |
| Series A | $ 71.49 | $ 68.34 |
| Series F | $ 71.55 | $ 68.22 |
| **U.S. dollars** | | |
| Series A | $ 67.42 | $ 65.31 |
| Series F | $ 67.48 | $ 65.20 |

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

Francis Chou

Tracy Chou

# CHOU ASSOCIATES FUND
## STATEMENT OF OPERATIONS
### FOR THE PERIOD ENDED JUNE 30, 2010
### (Unaudited)

| | 2010 | 2009 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Interest | $ 5,645,233 | $ 5,163,129 |
| Dividends | 2,095,080 | 4,125,240 |
| Income from derivatives | 1,471,799 | 1,016,566 |
| Interest from securities lending | - | 249,643 |
| | 9,212,112 | 10,554,578 |
| **EXPENSES** | | |
| Management fees (Note 6) | 3,938,993 | 3,227,794 |
| Custodian fees | 339,037 | 386,732 |
| Foreign withholding taxes | 329,950 | 281,312 |
| Audit | 28,774 | 17,825 |
| Filing fees | 22,258 | 11,873 |
| Independent Review Committee fees | 13,108 | 15,115 |
| FundSERV fees | 12,172 | - |
| Legal | 11,871 | 2,702 |
| | 4,696,163 | 3,943,353 |
| **NET INVESTMENT INCOME FOR THE PERIOD** | 4,515,949 | 6,611,225 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS** | | |
| Transaction costs | (376,015) | (48,358) |
| Net realized gain (loss) on sale of investments | 7,028,840 | (35,679,536) |
| Unrealized gain | 12,166,579 | 78,793,304 |
| | 18,819,404 | 43,065,410 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | $ 23,335,353 | $ 49,676,635 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | | |
| Series A | $ 21,967,108 | $ 46,689,121 |
| Series F | 1,368,245 | 2,987,514 |
| | $ 23,335,353 | $ 49,676,635 |
| **INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT** | | |
| Series A | $ 3.29 | $ 6.33 |
| Series F | $ 3.50 | $ 5.62 |

# CHOU ASSOCIATES FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE PERIOD ENDED JUNE 30, 2010
**(Unaudited)**

| | 2010 | 2009 |
|---|---|---|
| **SERIES A** | | |
| **NET ASSETS,** beginning of the period | $ 468,946,411 | $ 409,872,495 |
| Increase in net assets from operations | 21,967,108 | 46,689,121 |
| Proceeds from issue of units | 11,620,383 | 5,739,130 |
| Payments on redemption of units | (38,292,723) | (30,679,377) |
| **NET ASSETS,** end of the period | 464,241,179 | 431,621,369 |
| **SERIES F** | | |
| **NET ASSETS,** beginning of the period | 28,589,138 | 30,740,768 |
| Increase in net assets from operations | 1,368,245 | 2,987,514 |
| Proceeds from issue of units | 4,516,748 | 2,781,878 |
| Payments on redemption of units | (6,308,918) | (7,900,503) |
| **NET ASSETS,** end of the period | 28,165,213 | 28,609,657 |
| **TOTAL NET ASSETS,** end of the period | $ 492,406,392 | $ 460,231,026 |

# CHOU ASSOCIATES FUND
## STATEMENT OF INVESTMENTS
## AS AT JUNE 30, 2010
## (Unaudited)

| | No. of Shares or Par Value | Cost | Market Value |
|---|---|---|---|
| **SHARES*** | | | |
| Bank of America Corporation, Class A warrants | 1,200,000 | $ 10,245,159 | $ 9,709,026 |
| Berkshire Hathaway Inc., Class A | 190 | 19,658,153 | 24,036,298 |
| Biovail Corporation | 1,576,377 | 23,864,372 | 32,161,407 |
| Flagstone Reinsurance Holdings Ltd. | 1,500,000 | 17,582,635 | 17,194,393 |
| Gannett Company Inc. | 323,035 | 8,570,123 | 4,607,250 |
| Int'l Automotive Components Group North America | 1,094,922 | 120,506 | 116,106 |
| International Coal Group Inc. | 3,000,000 | 5,693,040 | 12,215,813 |
| King Pharmaceuticals Inc. | 5,611,961 | 63,031,859 | 45,167,525 |
| K-Swiss Inc., Class A | 18,674 | 277,125 | 221,979 |
| Mannkind Corporation | 438,989 | 3,734,116 | 2,974,571 |
| Media General Inc., Class A | 949,082 | 21,455,211 | 9,802,404 |
| Office Depot Inc. | 372,503 | 3,628,617 | 1,591,859 |
| Olympus Re Holdings Ltd. | 1,652,836 | 729,493 | 2,471,262 |
| Overstock.com Inc. | 1,504,209 | 31,016,174 | 28,743,050 |
| Primus Telecommunications Group Inc. | 649,932 | 3,277,121 | 4,824,317 |
| Royal Boskalis Westminster nv | 368,100 | 3,946,284 | 15,402,075 |
| Sanofi-Aventis ADR | 490,000 | 17,317,761 | 15,619,062 |
| Sears Holdings Corporation | 333,700 | 17,250,089 | 22,876,766 |
| Sprint Nextel Corporation | 6,123,200 | 22,170,958 | 27,465,575 |
| USG Corporation | 400,000 | 2,784,260 | 5,115,372 |
| Watson Pharmaceuticals Inc. | 635,400 | 18,447,292 | 27,321,715 |
| XO Holdings Inc. | 2,746,729 | 12,090,601 | 1,805,832 |
| | | 306,890,949 | 311,443,657 |
| **BONDS** | | | |
| Abitibi-Consolidated Inc., Floating, Jun 15, 2011 | 9,356,000 | 4,886,687 | 1,413,758 |
| Abitibi-Consolidated Inc., 7.75%, Jun 15, 2011 | 10,000,000 | 1,902,658 | 1,590,601 |
| Abitibi-Consolidated Inc., 8.375%, Apr 1, 2015 | 9,805,000 | 1,865,402 | 1,507,598 |
| Abitibi-Consolidated Inc., 8.55%, Aug 1, 2010 | 12,391,000 | 2,471,447 | 1,970,913 |
| Abitibi-Consolidated Inc., 15.5%, Jul 15, 2010 | 40,035,000 | 29,427,423 | 29,292,660 |
| Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014 | 16,200,000 | 18,452,711 | 17,657,079 |
| Interpublic Group Companies, 6.25%, Nov 15, 2014 | 7,400,000 | 4,859,956 | 7,905,815 |
| Level 3 Comm. Inc., 15.0%, conv., Jan 15, 2013 | 37,000,000 | 44,900,188 | 43,923,375 |
| Overstock.com Inc., 3.75%, Dec 1, 2011 | 6,825,000 | 5,483,607 | 6,909,965 |
| Primus Telecomm., 14.25%, May 20, 2013 | 16,757,000 | 13,823,046 | 17,658,074 |
| | | 128,073,125 | 129,829,838 |
| **TOTAL EQUITIES AND BONDS** | | 434,964,074 | 441,273,495 |
| **DERIVATIVES (Schedule 1)** | | (1,971,166) | (2,203,529) |
| **TRANSACTION COSTS** | | (1,247,986) | - |
| **PORTFOLIO TOTAL** | | $ 431,744,922 | $ 439,069,966 |

*Common shares unless indicated otherwise

# CHOU ASSOCIATES FUND
## SCHEDULE OF DERIVATIVES
## AS AT JUNE 30, 2010
## (Unaudited)

**Schedule 1**

| **Written Call Options** | **Expiry Date** | **Strike Price** | **Number** | **Cost** | **Market Value** |
|---|---|---|---|---|---|
| Biovail Corporation | Jan 2011 | $ 20.00 | 10,000 | $ (1,944,797) | $ (2,173,821) |
| Sprint Nextel Corporation | Jan 2011 | $ 5.00 | 412 | (26,369) | (29,708) |
| | | | | $ (1,971,166) | $ (2,203,529) |

## Risk Management

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

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

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. As of June 30, 2010, the Fund invested approximately 26% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody’s credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

## Interest Rate Risk

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

Debt Instruments by Maturity Date:

| | |
|---|---:|
| Less than 1 year | $ 34,267,932 |
| 1-3 years | $ 68,491,414 |
| 3-5 years | $ 27,070,492 |
| Greater than 5 years | - |

As at June 30, 2010, should interest rates have decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in Net Assets for the period would have amounted to approximately $1,670,000.

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

### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 63% of the Fund's Net Assets held at June 30, 2010 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2010, the Net Assets of the Fund would have increased or decreased by approximately $15,536,000, or 3.2% of the Net Assets, all other factors remaining constant.

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

### Foreign Currency Risk

Currencies to which the Fund had exposure as at June 30, 2010 are as follows:

| | Financial Instruments ($) | Percentage of NAV (%) |
|---|---|---|
| United States Dollar | 464,789,799 | 94.4% |
| Euro Currency | 26,347,904 | 5.4% |

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payables and liabilities for investments purchased) 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, as at June 30, 2010, net assets would have decreased or increased by approximately $4,922,000.

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

### Fair Value Hierarchy

The following is a summary of the inputs used as at June 30, 2010 in valuing the Fund's investments carried at fair value, as described in Note 2.

| | Quoted prices in active markets for identical assets | Significant observable inputs | Significant unobservable inputs | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Equities - Long** | $ 308,856,290 | $ - | $ 2,587,367 | $ 311,443,657 |
| **Bonds** | - | 129,829,838 | - | 129,829,838 |
| | 308,856,290 | 129,829,838 | 2,587,367 | 441,273,495 |
| **Options - Short** | (2,203,529) | - | - | (2,203,529) |
| **Total** | **$ 306,652,761** | **$ 129,829,838** | **$ 2,587,367** | **$439,069,966** |

Fair value measurements using level 3 inputs:

| | **Equities – Long** | **Bonds** | **Total** |
|---|---|---|---|
| **Balance at December 31, 2009** | $ 6,583,126 | $ 3,955,464 | $ 10,538,590 |
| Net purchases and sales | (3,552,938) | (5,276,550) | (8,829,488) |
| Net transfer in (out) | - | - | - |
| Gains (losses) | | | |
| Realized | - | 883,245 | 883,245 |
| Unrealized | (442,821) | 437,841 | (4,980) |
| **Balance at June 30, 2010** | **$ 2,587,367** | **$ -** | **$ 2,587,367** |

# CHOU ASIA FUND

August 13, 2010

Dear Unitholders of Chou Asia Fund,

The net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Asia Fund at June 30, 2010 was $15.22 compared to $14.64 at December 31, 2009, an increase of 4.0%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars was down 3.7%. In $US, a Series A unit of Chou Asia Fund returned 2.6% while the MSCI AC Asia Pacific Total Return Index was down 5.2%.

The table shows our 6 month, 1 year, 3 year, 5 year and since inception compound rates of return.

| **June 30, 2010 (Series A)** | **6 Month** | **1 Year** | **3 Years** | **5 Years** | **Since Inception** |
|---|---|---|---|---|---|
| Chou Asia ($CAN) | 4.0% | 24.3% | 0.9% | 8.0% | 9.2% |
| MSCI AC Asia Pacific TR ($CAN) | -3.7% | 2.3% | -7.4% | 2.0% | 3.6% |
| Chou Asia ($US)[1] | 2.6% | 36.2% | 1.0% | 11.1% | 13.2% |
| MSCI AC Asia Pacific TR ($US) | -5.2% | 11.9% | -7.3% | 5.1% | 7.6% |

Rates of return are historical total returns including 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 which 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 Months Results**

During the first six months of 2010 there was wide-spread fear of a sovereign debt crisis arising in some European countries, including Portugal, Ireland, Greece and Spain (PIGS). This led to a crisis of confidence, which resulted in an increase in bond yields and in prices of credit default swaps on several European countries' government bonds. Concern about rising government deficits and debt levels across the globe, together with a wave of downgrades to European Government debt, have created uncertainty in world financial markets, including the United States, Canada and Asia.

The debt crisis has been mostly centered on recent events in Greece and there are concerns that Greece and possibly some other troubled European countries may be unable to finance the rising cost of their government debt. In late April 2010, amidst fears of default by the Greek government, Standard & Poor decreased Greece's debt rating to the first level of junk bond status. Following the downgrade, the yield on Greek government two-year bonds rose to 15.9%, up from 6% two weeks earlier.

Positive contributors to the Fund's performance were Chintai Corporation, Chunghwa Telecom, Delta Electronics and Glacier Media Inc.

[1]The alternative method of purchasing Chou Asia Fund in $US has been offered since September 2005. Performance for years prior to September 2005 are 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.

We suffered declines in Hanfeng Evergreen, Sankyo Company, UTStarcom Inc., SK Telecom, and debt securities of Level 3 Communications Inc.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2010.

CREDIT DEFAULT SWAPS: None were purchased in the first half of 2010.

CONSTANT MATURITY SWAPS: None were purchased in the first half of 2010.

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

CHANGE IN MINIMUM INVESTMENT: The minimum amount to invest in the Fund is now $5,000 and subsequent investment is $500.

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2009 IRC Annual Report is available on our website www.choufunds.com.

As of August 13, 2010, the NAV of a Series A unit of the Fund was $15.35 and the cash position was 51.5% of net assets. The Fund is up 4.9% from the beginning of the year. In $US, it is up 5.5%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

# CHOU ASIA FUND

## STATEMENT OF NET ASSETS

### AS AT JUNE 30, 2010

### (Unaudited)

| | 2010 | DEC 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 31,806,073 | $ 24,928,445 |
| Accrued interest and dividend income | 409,877 | 389,497 |
| Receivable for units subscribed | 42,302 | 36,893 |
| Investments, at fair value | 29,233,488 | 38,139,997 |
| | 61,491,740 | 63,494,832 |
| **LIABILITIES** | | |
| Accrued expenses | 101,958 | 94,877 |
| Payable for units redeemed | 225,789 | 117,280 |
| Distributions payable | - | 19,129 |
| | 327,747 | 231,286 |
| **NET ASSETS** | $ 61,163,993 | $ 63,263,546 |
| | | |
| **NET ASSETS, BY SERIES** | | |
| Series A | $ 58,708,377 | $ 60,788,240 |
| Series F | 2,455,616 | 2,475,306 |
| | $ 61,163,993 | $ 63,263,546 |
| | | |
| **NUMBER OF UNITS OUTSTANDING** (Note 4) | | |
| Series A | 3,857,693 | 4,183,867 |
| Series F | 160,370 | 169,765 |
| | | |
| **NET ASSET VALUE PER UNIT** | | |
| **Canadian dollars** | | |
| Series A | $ 15.22 | $ 14.53 |
| Series F | $ 15.31 | $ 14.58 |
| **U.S. dollars** | | |
| Series A | $ 14.35 | $ 13.88 |
| Series F | $ 14.44 | $ 13.93 |

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

Francis Chou

Tracy Chou

# CHOU ASIA FUND

## STATEMENT OF OPERATIONS

## FOR THE PERIOD ENDED JUNE 30, 2010

## (Unaudited)

| | 2010 | 2009 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Income from derivatives | $ 646,531 | $ - |
| Interest | 358,557 | 726,674 |
| Dividends | 355,679 | 873,890 |
| | 1,360,767 | 1,600,564 |
| **EXPENSES** | | |
| Management fees (Note 6) | 509,009 | 441,120 |
| Custodian fees | 48,130 | 52,818 |
| Foreign withholding taxes | 34,866 | 111,333 |
| Audit | 10,235 | 1,779 |
| Filing fees | 2,967 | 1,530 |
| Legal | 1,780 | 702 |
| Independent Review Committee fees | 1,780 | 2,127 |
| FundSERV fees | 1,592 | 1,982 |
| | 610,359 | 613,391 |
| **NET INVESTMENT INCOME FOR THE PERIOD** | 750,408 | 987,173 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS** | | |
| Transaction costs | (49,955) | (516) |
| Net realized gain (loss) on sale of investments | 8,540,810 | (5,153,658) |
| Unrealized gain (loss) | (6,087,055) | 5,148,189 |
| | 2,403,800 | (5,985) |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | $ 3,154,208 | $ 981,188 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | | |
| Series A | $ 3,031,618 | $ 956,066 |
| Series F | 122,590 | 25,122 |
| | $ 3,154,208 | $ 981,188 |
| **INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT** | | |
| Series A | $ 0.75 | $ 0.21 |
| Series F | $ 0.65 | $ 0.24 |

# CHOU ASIA FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE PERIOD ENDED JUNE 30, 2010
## (Unaudited)

| | 2010 | 2009 |
|---|---|---|
| **SERIES A** | | |
| **NET ASSETS,** beginning of the period | $ 60,788,240 | $ 56,589,172 |
| Increase in net assets from operations | 3,031,618 | 956,066 |
| Proceeds from issue of units | 2,317,252 | 2,359,505 |
| Payments on redemption of units | (7,428,733) | (6,762,945) |
| **NET ASSETS,** end of the period | 58,708,377 | 53,141,798 |
| **SERIES F** | | |
| **NET ASSETS,** beginning of the period | 2,475,306 | 1,160,381 |
| Increase in net assets from operations | 122,590 | 25,122 |
| Proceeds from issue of units | 1,013,302 | 351,600 |
| Payments on redemption of units | (1,155,582) | (234,183) |
| **NET ASSETS,** end of the period | 2,455,616 | 1,302,920 |
| **TOTAL NET ASSETS,** end of the period | $ 61,163,993 | $ 54,444,718 |

# CHOU ASIA FUND
## STATEMENT OF INVESTMENTS
## AS AT JUNE 30, 2010
## (Unaudited)

| | No. of Shares or Par Value | Cost | Market Value |
|---|---|---|---|
| **SHARES*** | | | |
| Chintai Corporation | 8,117 | $ 2,026,824 | $ 3,059,515 |
| Chunghwa Telecom Company Ltd. ADR | 165,111 | 3,050,511 | 3,445,649 |
| Delta Electronics Public Company Ltd. | 1,763,300 | 897,401 | 1,334,336 |
| Glacier Media Inc. | 794,107 | 2,144,287 | 1,818,505 |
| Hanfeng Evergreen Inc. | 495,750 | 1,182,082 | 2,875,350 |
| Sankyo Company Ltd. | 60,000 | 2,684,475 | 2,904,624 |
| SK Telecom Company Ltd. ADR | 170,000 | 3,795,157 | 2,649,941 |
| The McClatchy Company, Class A | 247,001 | 152,359 | 950,769 |
| UTStarcom Inc. | 1,247,051 | 4,817,388 | 2,419,943 |
| | | 20,750,484 | 21,458,632 |
| **BONDS** | | | |
| Abitibi-Consolidated Inc., 6.0%, Jun 20, 2013 | 14,295,000 | 3,079,127 | 2,273,764 |
| Abitibi-Consolidated Inc., 7.75%, Jun 15, 2011 | 1,000,000 | 169,338 | 159,060 |
| Level 3 Communications, 15.0%, conv., Jan 15, 2013 | 4,500,000 | 5,474,386 | 5,342,032 |
| | | 8,722,851 | 7,774,856 |
| **TOTAL EQUITIES AND BONDS** | | 29,473,335 | 29,233,488 |
| **TRANSACTION COSTS** | | (8,862) | - |
| **PORTFOLIO TOTAL** | | $ 29,464,473 | $ 29,233,488 |

* Common shares unless indicated otherwise

**Risk Management**

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

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

**Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. As of June 30, 2010, the Fund invested approximately 13% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody’s credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

**Interest Rate Risk**

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

Debt Instruments by Maturity Date:

| | |
|---|---|
| Less than 1 year | $ 159,060 |
| 1-3 years | $ 7,615,796 |
| 3-5 years | $ 0 |
| Greater than 5 years | $ 0 |

As at June 30, 2010, should interest rates have decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in Net Assets for the period would have amounted to approximately $74,000.

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

**Other Price Risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 35% of the Fund's Net Assets held at June 30, 2010 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2010, the Net Assets of the Fund would have increased or decreased by approximately $1,070,000, or 1.8% of the Net Assets, all other factors remaining constant.

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

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2010 are as follows:

| | Financial Instruments ($) | Percentage of NAV (%) |
|---|---|---|
| United States Dollar | 17,310,029 | 28.3% |
| Japanese Yen | 9,641,118 | 15.8% |
| Thailand Baht | 1,334,336 | 2.2% |
| Singapore Dollar | 132,463 | 0.2% |

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payables) 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, as at June 30, 2010, net assets would have decreased or increased by approximately $284,000.

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

## Fair Value Hierarchy

The following is a summary of the inputs used as at June 30, 2010 in valuing the Fund's investments carried at fair value, as described in Note 2.

| | Quoted prices in active markets for identical assets<br>Level 1 | Significant observable inputs<br>Level 2 | Significant unobservable inputs<br>Level 3 | Total |
|---|---|---|---|---|
| **Equities - Long** | $ 20,124,296 | $ 1,334,336 | $ - | $ 21,458,632 |
| **Bonds** | - | 7,774,856 | - | 7,774,856 |
| | 20,124,296 | 9,109,192 | - | 29,233,488 |
| **Options - Short** | - | - | - | - |
| **Total** | **$ 20,124,296** | **$ 9,109,192** | **$ -** | **$ 29,233,488** |

Fair value measurements using level 3 inputs:

| | Equities – Long | Bonds | Total |
|---|---|---|---|
| **Balance at December 31, 2009** | $ - | $ - | $ - |
| Net purchases and sales | - | - | - |
| Net transfer in (out) | - | - | - |
| Gains (losses) | | | |
| Realized | - | - | - |
| Unrealized | - | - | - |
| **Balance at June 30, 2010** | **$ -** | **$ -** | **$ -** |

# CHOU EUROPE FUND

August 13, 2010

Dear Unitholders of Chou Europe Fund,

The net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Europe Fund at June 30, 2010 was $7.02 compared to $7.47 at December 31, 2009, a decrease of 6.1%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars was down 14.5%. In $US, a Series A unit of Chou Europe Fund returned was down 7.3% while the MSCI AC Europe Total Return Index was down 15.8%.

The table shows our 6 month, 1 year, 3 year, 5 year and since inception compound rates of return.

| **June 30, 2010 (Series A)** | **6 Month** | **1 Year** | **3 Years** | **5 Years** | **Since Inception** |
|---|---|---|---|---|---|
| Chou Europe ($CAN) | -6.1% | 5.8% | -14.3% | -7.5% | -1.9% |
| MSCI AC Europe TR ($CAN) | -14.5% | -1.8% | -14.4% | -1.8% | 2.5% |
| Chou Europe ($US)[3] | -7.3% | 16.0% | -14.2% | -4.8% | 1.7% |
| MSCI AC Europe TR ($US) | -15.8% | 7.3% | -14.4% | 1.1% | 6.3% |

Rates of return are historical total returns including 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 which 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 Months Results**

During the first six months of 2010 there was wide-spread fear of a sovereign debt crisis arising in some European countries, including Portugal, Ireland, Greece and Spain (PIGS). This led to a crisis of confidence, which resulted in an increase in bond yields and in prices of credit default swaps on several European countries' government bonds. Concern about rising government deficits and debt levels across the globe, together with a wave of downgrades to European Government debt, have created uncertainty in world financial markets, including the United States and Canada.

The debt crisis has been mostly centered on recent events in Greece and there are concerns that Greece and possibly some other troubled European countries may be unable to finance the rising cost of their government debt. In late April 2010, amidst fears of default by the Greek government, Standard & Poor decreased Greece's debt rating to the first level of junk bond status. Following the downgrade, the yield on Greek government two-year bonds rose to 15.9%, up from 6% two weeks earlier.

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

The Fund did not enter into any forward currency contracts for Pound Sterling or Euros during the period. As such, even if the price of a security denominated in Pound Sterling or Euros remained the same on June 30, 2010, compared to six months ago, it would have shown a depreciation of roughly 4.1% and 12.7% respectively when priced in Canadian dollars.

Securities in the portfolio that declined in the first half of 2010 were Alexon Group PLC, Topps Tiles PLC GlaxoSmithKline, Sanofi-Aventis and Nokia Corporation.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2010.

CREDIT DEFAULT SWAPS: None were purchased in the first half of 2010.

CONSTANT MATURITY SWAPS: None were purchased in the first half of 2010.

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

CHANGE IN MINIMUM INVESTMENT: The minimum amount to invest in the Fund is now $5,000 and subsequent investment is $500.

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2009 IRC Annual Report is available on our website www.choufunds.com.

As of August 13, 2010, the NAV of a Series A unit of the Fund was $7.29 and the cash position was 24% of net assets. The Fund is down 2.4% from the beginning of the year. In $US, it is down 1.8%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

# CHOU EUROPE FUND

## STATEMENT OF NET ASSETS

## AS AT JUNE 30, 2010

## (Unaudited)

| | | 2010 | | DEC 31, 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ | 1,928,631 | $ | 942,537 |
| Accrued interest and dividend income | | 32,969 | | 84,730 |
| Receivable for units subscribed | | 10,000 | | - |
| Due from brokers | | - | | 502,281 |
| Investments, at fair value | | 5,650,066 | | 7,291,607 |
| | | 7,621,666 | | 8,821,155 |
| **LIABILITIES** | | | | |
| Accrued expenses | | 16,914 | | 14,714 |
| Payable for units redeemed | | 12,088 | | 17,069 |
| Distributions payable | | - | | 7,861 |
| | | 29,002 | | 39,644 |
| **NET ASSETS** | $ | 7,592,664 | $ | 8,781,511 |
| | | | | |
| **NET ASSETS, BY SERIES** | | | | |
| Series A | $ | 7,376,798 | $ | 8,493,485 |
| Series F | | 215,866 | | 288,026 |
| | $ | 7,592,664 | $ | 8,781,511 |
| | | | | |
| **NUMBER OF UNITS OUTSTANDING** (Note 4) | | | | |
| Series A | | 1,053,045 | | 1,141,295 |
| Series F | | 30,461 | | 38,357 |
| **NET ASSET VALUE PER UNIT** | | | | |
| **Canadian dollars** | | | | |
| Series A | $ | 7.01 | $ | 7.44 |
| Series F | $ | 7.09 | $ | 7.51 |
| **U.S. dollars** | | | | |
| Series A | $ | 6.61 | $ | 7.11 |
| Series F | $ | 6.68 | $ | 7.18 |

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

Francis Chou

Tracy Chou

# CHOU EUROPE FUND

## STATEMENT OF OPERATIONS

## FOR THE PERIOD ENDED JUNE 30, 2010

## (Unaudited)

| | 2010 | 2009 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Dividends | $ 116,612 | $ 125,431 |
| Interest | 49,037 | 187,848 |
| | 165,649 | 313,279 |
| **EXPENSES** | | |
| Management fees (Note 6) | 63,253 | 59,441 |
| Foreign withholding taxes | 17,025 | 19,007 |
| Custodian fees | 6,480 | 7,546 |
| Audit | 3,767 | 1,779 |
| Filing fees | 741 | - |
| Legal | 296 | 106 |
| FundSERV fees | 232 | - |
| Independent Review Committee fees | 229 | 273 |
| | 92,023 | 88,152 |
| **NET INVESTMENT INCOME FOR THE PERIOD** | 73,626 | 225,127 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS** | | |
| Transaction costs | (5,093) | (586) |
| Net realized gain (loss) on sale of investments | 351,212 | (4,026,386) |
| Unrealized gain (loss) | (920,107) | 5,245,790 |
| | (573,988) | 1,218,818 |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS** | $ (500,362) | $ 1,443,945 |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS** | | |
| Series A | $ (485,335) | $ 1,387,761 |
| Series F | (15,027) | 56,184 |
| | $ (500,362) | $ 1,443,945 |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT** | | |
| Series A | $ (0.44) | $ 1.23 |
| Series F | $ (0.42) | $ 1.30 |

# CHOU EUROPE FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE PERIOD ENDED JUNE 30, 2010
## (Unaudited)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **SERIES A** | | | | |
| **NET ASSETS,** beginning of the period | $ | 8,493,485 | $ | 7,008,560 |
| Increase (decrease) in net assets from operations | | (485,335) | | 1,387,761 |
| Proceeds from issue of units | | 66,844 | | 203,171 |
| Payments on redemption of units | | (698,196) | | (504,308) |
| **NET ASSETS,** end of the period | | 7,376,798 | | 8,095,184 |
| **SERIES F** | | | | |
| **NET ASSETS,** beginning of the period | | 288,026 | | 263,079 |
| Increase (decrease) in net assets from operations | | (15,027) | | 56,184 |
| Proceeds from issue of units | | - | | 5,601 |
| Payments on redemption of units | | (57,133) | | (16,863) |
| **NET ASSETS,** end of the period | | 215,866 | | 308,001 |
| **TOTAL NET ASSETS,** end of the period | $ | 7,592,664 | $ | 8,403,185 |

# CHOU EUROPE FUND
## STATEMENT OF INVESTMENTS
## AS AT JUNE 30, 2010
## (Unaudited)

| | No. of Shares or Par Value | Cost | Market Value |
|---|---|---|---|
| **SHARES*** | | | |
| Aer Lingus Group PLC | 300,000 | $ 273,841 | $ 312,838 |
| Alexon Group PLC | 492,738 | 1,075,544 | 136,731 |
| AstraZeneca PLC | 13,000 | 701,770 | 653,246 |
| BP PLC ADR | 10,000 | 313,497 | 306,032 |
| CryptoLogic Limited | 60,000 | 828,212 | 118,800 |
| GlaxoSmithKline PLC | 28,000 | 764,303 | 507,476 |
| Next PLC | 20,000 | 646,019 | 636,169 |
| Nokia Corporation ADR | 30,000 | 361,778 | 258,950 |
| Royal Boskalis Westminster nv | 7,400 | 76,947 | 309,631 |
| Ryanair Holdings PLC ADR | 20,000 | 574,892 | 573,252 |
| Sanofi-Aventis ADR | 20,000 | 884,092 | 637,513 |
| Topps Tiles PLC | 370,000 | 513,589 | 290,415 |
| Vodafone Group PLC ADR | 10,000 | 198,082 | 219,079 |
| | | 7,212,566 | 4,960,132 |
| **BONDS** | | | |
| Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014 | 633,000 | 664,489 | 689,934 |
| **TOTAL EQUITIES AND BONDS** | | 7,877,055 | 5,650,066 |
| **TRANSACTION COSTS** | | (10,744) | - |
| **PORTFOLIO TOTAL** | | $ 7,866,311 | $ 5,650,066 |

* Common shares unless indicated otherwise

## Risk Management

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

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

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. As of June 30, 2010, the Fund invested approximately 9% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody’s credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

## Interest Rate Risk

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

Debt Instruments by Maturity Date:

| | |
|---|---:|
| Less than 1 year | $ 0 |
| 1-3 years | $ 0 |
| 3-5 years | $ 689,934 |
| Greater than 5 years | $ 0 |

As at June 30, 2010, should interest rates have decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in Net Assets for the period would have amounted to approximately $14,000.

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

### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 65% of the Fund's Net Assets held at June 30, 2010 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2010, the Net Assets of the Fund would have increased or decreased by approximately $247,000, or 3.3% of the Net Assets, all other factors remaining constant.

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

### Foreign Currency Risk

Currencies to which the Fund had exposure as at June 30, 2010 are as follows:

| | Financial Instruments ($) | Percentage of NAV (%) |
|---|---|---|
| United States Dollar | 2,748,833 | 36.2% |
| Sterling Pound | 2,560,353 | 33.7% |
| Euro Currency | 889,591 | 11.7% |

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payables) 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, as at June 30, 2010, net assets would have decreased or increased by approximately $62,000.

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

**Fair Value Hierarchy**

The following is a summary of the inputs used as at June 30, 2010 in valuing the Fund's investments carried at fair value, as described in Note 2.

| | Quoted prices in active markets for identical assets | Significant observable inputs | Significant unobservable inputs | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Equities - Long** | $ 4,960,132 | $ - | $ - | $ 4,960,132 |
| **Bonds** | - | 689,934 | - | 689,934 |
| | 4,960,132 | 689,934 | - | 5,650,066 |
| **Options - Short** | - | - | - | - |
| **Total** | **$ 4,960,132** | **$ 689,934** | **$ -** | **$ 5,650,066** |

Fair value measurements using level 3 inputs:

| | **Equities – Long** | **Bonds** | **Total** |
|---|---|---|---|
| **Balance at December 31, 2009** | $ - | $ 847,600 | $ 847,600 |
| Net purchases and sales | - | (1,130,690) | (1,130,690) |
| Net transfer in (out) | - | - | - |
| Gains (losses) | | | |
| Realized | - | 189,267 | 189,267 |
| Unrealized | - | 93,823 | 93,823 |
| **Balance at June 30, 2010** | **$ -** | **$ -** | **$ -** |

# CHOU BOND FUND

August 13, 2010

Dear Unitholders of Chou Bond Fund,

The net asset value ("NAVPU" or "NAV") of a Series A unit of Chou Bond Fund at June 30, 2010 was $10.36 compared to $8.51 at December 31, 2009, an increase of 21.7%; during the same period, Citigroup WGBI (World Government Bond Index) All Maturities ($CAN) returned 0.3% and Barclays U.S. Corporate High Yield Index ($CAN) returned 5.9%. In $US, a Series A unit of Chou Bond Fund returned 20.1% while Citigroup WGBI All Maturities was down 1.0% and Barclays U.S. Corporate High Yield Index returned 4.5%.

The table shows our 6 month, 1 year, 3 year and since inception annual compound rates of return.

| **June 30, 2010 (Series A)** | **6 Month** | **1 Year** | **3 Years** | **Since Inception** |
|---|---:|---:|---:|---:|
| Chou Bond ($CAN) | 21.7% | 32.8% | 0.9% | 6.2% |
| Citigroup WGBI ($CAN) | 0.3% | -5.8% | 7.8% | 3.0% |
| Barclays' U.S. High Yield ($CAN) | 5.9% | 16.0% | 6.5% | 4.6% |
| Chou Bond ($US) [1] | 20.1% | 45.5% | 0.9% | 8.6% |
| Citigroup WGBI ($US) | -1.0% | 3.0% | 7.8% | 5.3% |
| Barclays' U.S High Yield ($US) | 4.5% | 26.8% | 6.5% | 7.1% |

Rates of return are historical total returns including 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 which 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 Months Results

During the first six months of 2010 there was wide-spread fear of a sovereign debt crisis arising in some European countries, including Portugal, Ireland, Greece and Spain (PIGS). This led to a crisis of confidence, which resulted in an increase in bond yields and in prices of credit default swaps on several European countries' government bonds. Concern about rising government deficits and debt levels across the globe, together with a wave of downgrades to European Government debt, have created uncertainty in world financial markets, including the United States and Canada.

The debt crisis has been mostly centered on recent events in Greece and there are concerns that Greece and possibly some other troubled European countries may be unable to finance the rising cost of their government debt. In late April 2010, amidst fears of default by the Greek government, Standard & Poor decreased Greece's debt rating to the first level of junk bond status. Following the downgrade, the yield on Greek government two-year bonds rose to 15.9%, up from 6% two weeks earlier.

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

Positive contributors to the Fund's performance were debt securities of Abitibi-Consolidated, Overstock.com, Primus Telecommunications, Tembec, Wells Fargo, CanWest MediaWorks LP, Taiga Building products and shares of Fibrek Inc.

We suffered declines in the debt securities of Texas Comp Electric and Goldman Sachs Capital.

**General Comments on the Market**

NON-INVESTMENT GRADE AND INVESTMENT GRADE BONDS ARE NOW FULLY PRICED: Non-investment grade bonds have rallied tremendously from their lows in March 2009, and at current prices we believe they are close to fully priced. For example, three and a half years ago the spread between U.S. corporate high yield debt and U.S. treasuries was 311 basis points. Currently, it is about 696 basis points, down from its peak of over 1,900 basis points in December 2008. (Source: JP Morgan).

Similarly, we believe that investment grade bonds are now close to fully priced.

However, when compared to corporate bonds, U.S. treasuries are in bubble territory. In our opinion, this is the worst time to hold cash and short-term treasuries unless you believe we are headed into a 1930s style depression. And if you believe that you should redeem all your Fund units.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2010.

CREDIT DEFAULT SWAPS: None were purchased in the first half of 2010.

CONSTANT MATURITY SWAPS: None were purchased in the first half of 2010.

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

CHANGE IN MINIMUM INVESTMENT: The minimum amount to invest in the Fund is now $5,000 and subsequent investment is $500.

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2009 IRC Annual Report is available on our website www.choufunds.com.

As of August 13, 2010, the NAV of a Series A unit of the Fund was $10.29 and the cash position was 17.3% of net assets. The Fund is up 20.9% from the beginning of the year. In $US, it is up 21.6%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

# CHOU BOND FUND
## STATEMENT OF NET ASSETS
## AS AT JUNE 30, 2010
## (Unaudited)

| | 2010 | DEC 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 18,316,105 | $ 21,426,300 |
| Accrued interest income | 618,441 | 921,893 |
| Receivable for units subscribed | 34,775 | 10,800 |
| Due from broker | 1,444,759 | - |
| Investments, at fair value | 57,199,783 | 49,073,381 |
| | 77,613,863 | 71,432,374 |
| **LIABILITIES** | | |
| Accrued expenses | 96,397 | 83,983 |
| Payable for units redeemed | 553,438 | 219,074 |
| Distributions payable | - | 120,393 |
| | 649,835 | 423,450 |
| **NET ASSETS** | $ 76,964,028 | $ 71,008,924 |
| **NET ASSETS, BY SERIES** | | |
| Series A | $ 60,846,603 | $ 57,792,220 |
| Series F | 16,117,425 | 13,216,704 |
| | $ 76,964,028 | $ 71,008,924 |
| **NUMBER OF UNITS OUTSTANDING** (Note 4) | | |
| Series A | 5,876,749 | 6,801,007 |
| Series F | 1,556,993 | 1,556,801 |
| **NET ASSET VALUE PER UNIT** | | |
| **Canadian dollars** | | |
| Series A | $ 10.35 | $ 8.50 |
| Series F | $ 10.35 | $ 8.49 |
| **U.S. dollars** | | |
| Series A | $ 9.76 | $ 8.12 |
| Series F | $ 9.76 | $ 8.11 |

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

Francis Chou

Tracy Chou

# CHOU BOND FUND
## STATEMENT OF OPERATIONS
## FOR THE PERIOD ENDED JUNE 30, 2010
(Unaudited)

| | 2010 | 2009 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Interest | $ 2,354,132 | $ 2,378,716 |
| Dividends | - | 18,639 |
| Income from derivatives | 1,492,972 | - |
| | 3,847,104 | 2,397,355 |
| **EXPENSES** | | |
| Management fees (Note 6) | 442,742 | 333,128 |
| Custodian fees | 52,517 | 53,496 |
| Audit | 11,235 | 1,779 |
| Filing fees | 2,967 | 1,523 |
| Legal | 2,077 | 753 |
| Independent Review Committee fees | 1,992 | 2,004 |
| FundSERV fees | 1,717 | 1,982 |
| Foreign withholding taxes | - | 4,593 |
| | 515,247 | 399,258 |
| **NET INVESTMENT INCOME FOR THE PERIOD** | 3,331,857 | 1,998,097 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS ) AND TRANSACTION COSTS** | | |
| Transaction costs | (198,685) | (2,022) |
| Net realized gain (loss) on sale of investments | 778,686 | (7,906,657) |
| Unrealized gain | 10,941,314 | 21,922,855 |
| | 11,521,315 | 14,014,176 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | $ 14,853,172 | $ 16,012,273 |
| **INCREASE IN NET ASSETS FROM OPERATIONS** | | |
| Series A | $ 11,924,281 | $ 13,308,662 |
| Series F | 2,928,891 | 2,703,611 |
| | $ 14,853,172 | $ 16,012,273 |
| **INCREASE IN NET ASSETS FROM OPERATIONS, PER UNIT** | | |
| Series A | $ 1.86 | $ 1.91 |
| Series F | $ 1.86 | $ 2.06 |

# CHOU BOND FUND
## STATEMENT OF CHANGES IN NET ASSETS
## FOR THE PERIOD ENDED JUNE 30 2010
**(Unaudited)**

| | 2010 | 2009 |
|---|---|---|
| **SERIES A** | | |
| **NET ASSETS,** beginning of the period | $ 57,792,220 | $ 45,350,117 |
| Increase in net assets from operations | 11,924,281 | 13,308,662 |
| Proceeds from issue of units | 2,361,335 | 3,119,083 |
| Payments on redemption of units | (11,231,233) | (4,920,614) |
| **NET ASSETS,** end of the period | 60,846,603 | 56,857,248 |
| **SERIES F** | | |
| **NET ASSETS,** beginning of the period | 13,216,704 | 7,388,193 |
| Increase in net assets from operations | 2,928,891 | 2,703,611 |
| Proceeds from issue of units | 1,290,900 | 3,035,289 |
| Payments on redemption of units | (1,319,070) | (1,020,317) |
| **NET ASSETS,** end of the period | 16,117,425 | 12,106,776 |
| **TOTAL NET ASSETS,** end of the period | $ 76,964,028 | $ 68,964,024 |

# CHOU BOND FUND
## STATEMENT OF INVESTMENTS
## AS AT JUNE 30, 2010
## (Unaudited)

| | No. of Units or Par Value | Cost | Market Value |
|---|---|---|---|
| **SHARES*** | | | |
| Fibrek Inc.** | 915,000 | $ 1,843,324 | $ 951,600 |
| MEGA Brands Inc., warrants *** | 617,000 | 80,210 | 86,380 |
| | | 1,923,534 | 1,037,980 |
| **BONDS** | | | |
| Abitibi-Consolidated Inc., 8.375%, Apr 1, 2015 | 7,000,000 | 1,185,364 | 1,076,306 |
| Abitibi-Consolidated Inc., 15.5%, Jul 15, 2010 | 13,491,000 | 4,284,509 | 9,871,045 |
| AmeriCredit Corp., 0.75%, conv., Sep 15, 2011 | 485,000 | 287,897 | 477,496 |
| ATP Oil & Gas Corp., 11.875%, May 1, 2015 | 1,000,000 | 686,035 | 795,300 |
| CanWest MediaWorks LP, 9.25%, Aug 1, 2015 | 3,500,000 | 2,902,733 | 1,245,212 |
| Catalyst Paper Corporation, 11.0%, Dec 15, 2016 | 1,000,000 | 865,755 | 839,551 |
| Clarke Inc., 6.0%, conv., Dec. 31, 2013 | 300,000 | 370,746 | 277,500 |
| ExpressJet Holdings, 11.25%, conv., Aug 1, 2023 | 2,017,000 | 1,693,570 | 2,158,291 |
| Fibrek Inc., 7.0%, Dec 31, 2011 | 1,400,000 | 833,375 | 1,340,500 |
| French Lick Resorts & Casino, 10.75%, Apr 15, 2014 | 2,500,000 | 1,841,513 | 1,829,191 |
| Global Crossing (UK) Ltd., 10.75%, Dec 15, 2014 | 185,000 | 194,612 | 201,639 |
| Goldman Sachs Capital Inc., 5.793%, Dec 29, 2049 | 7,000,000 | 3,270,604 | 5,622,773 |
| Hollinger Inc., 11.875%, Mar 1, 2011 | 680,000 | 771,244 | 0 |
| Hollinger Inc., 12.875%, Mar 1, 2011 | 1,192,000 | 1,303,069 | 0 |
| James River Coal Co., 9.375%, Jun 1, 2012 | 3,000,000 | 2,525,876 | 3,233,055 |
| Level 3 Comm., 15.0%, conv., Jan 15, 2013 | 2,000,000 | 2,447,675 | 2,374,237 |
| Mannkind Corp., 3.75%, conv., Dec 15, 2013 | 6,000,000 | 3,447,915 | 3,835,638 |
| MEGA Brands Inc., 10.0%, Jan 28, 2015 | 6,004,000 | 4,735,460 | 6,058,036 |
| Overstock.com Inc., 3.75%, Dec 1, 2011 | 3,295,000 | 2,418,789 | 3,336,020 |
| Primus Telecomm. Group, 14.25%, May 20, 2013 | 3,409,158 | 2,812,255 | 3,592,478 |
| Royal Host Real Estate Inv. Tr., 6.0%, Oct 31, 2015 | 35,000 | 24,920 | 24,500 |
| Taiga Building Products Ltd., 14.0%, Sep 1, 2020 | 1,712,000 | 1,705,899 | 1,635,816 |
| Tembec, Term Loan, Floating, Feb 12, 2012 | 625,000 | 637,118 | 629,613 |
| Texas Comp. Electric, 10.25%, Nov 1, 2015 | 2,000,000 | 1,932,609 | 1,442,145 |
| The McClatchy Company, 11.5%, Feb 15, 2017 | 1,000,000 | 1,059,593 | 1,080,283 |
| Wells Fargo Capital XIII, Dec 29, 2049 | 3,000,000 | 1,416,549 | 3,185,178 |
| | | 45,655,684 | 56,161,803 |
| **TOTAL EQUITIES AND BONDS** | | 47,579,218 | 57,199,783 |
| **TRANSACTION COSTS** | | (59,714) | - |
| **PORTFOLIO TOTAL** | | $ 47,519,504 | $ 57,199,783 |

* Common shares unless indicated otherwise
** Name change from SFK Pulp Fund, converted from a trust structure to a corporation
*** Warrants received when converted from subscription receipts

## Risk Management

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

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

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

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. As of June 30, 2010, the Fund invested approximately 62% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody’s credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

## Interest Rate Risk

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

Debt Instruments by Maturity Date:

| | |
|---|---|
| Less than 1 year | $ 9,871,045 |
| 1-3 years | $ 14,983,399 |
| 3-5 years | $ 14,073,611 |
| Greater than 5 years | $ 17,233,748 |

As at June 30, 2010, should interest rates have decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in Net Assets for the period would have amounted to approximately $1,240,000.

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

**Other Price Risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 1.4% of the Fund's Net Assets held at June 30, 2010 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2010, the Net Assets of the Fund would have increased or decreased by approximately $54,000, or 0.07% of the Net Assets, all other factors remaining constant.

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

**Foreign Currency Risk**

Currencies to which the Fund had exposure as at June 30, 2010 are as follows:

| | Financial Instruments ($) | Percentage of NAV (%) |
|---|---|---|
| United States Dollar | 47,244,436 | 61.4% |

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including interest receivables and other receivables) and financial liabilities (including payables) 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, as at June 30, 2010, net assets would have decreased or increased by approximately $470,000.

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

### Fair Value Hierarchy

The following is a summary of the inputs used as at June 30, 2010 in valuing the Fund's investments carried at fair value, as described in Note 2.

| | Quoted prices in active markets for identical assets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| **Equities - Long** | $ 1,037,980 | $ - | $ - | $ 1,037,980 |
| **Bonds** | - | 55,532,190 | 629,613 | 56,161,803 |
| | 1,037,980 | 55,532,190 | 629,613 | 57,199,783 |
| **Options - Short** | - | - | - | - |
| **Total** | **$ 1,037,980** | **$ 55,532,190** | **$ 629,613** | **$ 57,199,783** |

Fair value measurements using level 3 inputs:

| | Equities – Long | Bonds | Total |
|---|---|---|---|
| **Balance at December 31, 2009** | $ - | $ 552,771 | $ 552,771 |
| Net purchases and sales | - | (170,187) | (170,187) |
| Net transfer in (out) | - | - | - |
| Gains (losses) | | | |
| Realized | - | 115,889 | 115,889 |
| Unrealized | - | 131,140 | 131,140 |
| **Balance at June 30, 2010** | **$ -** | **$ 629,613** | **$ 629,613** |

# CHOU RRSP FUND

August 13, 2010

Dear Unitholders of Chou RRSP Fund,

The net asset value ("NAVPU" or "NAV") of a Series A unit of Chou RRSP Fund at June 30, 2010 was $20.47 compared to $17.25 at December 31, 2009, an increase of 18.7%; during the same period, the S&P/TSX Total Return Index was down 2.5% in Canadian dollars. In $US, a Series A unit of Chou RRSP Fund increased 17.1% while the S&P/TSX Total Return Index was down 4.0%.

The table shows our 6 month, 1 year, 3 year, 5 year, 10 year and 15 year annual compound rates of return.

| June 30, 2010 (Series A) | 6 Month | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
|---|---|---|---|---|---|---|
| Chou RRSP ($CAN) | 18.7% | 52.0% | -8.8% | -1.2% | 8.2% | 11.6% |
| S&P/TSX ($CAN) | -2.5% | 11.9% | -3.9% | 5.4% | 3.3% | 8.5% |
| Chou RRSP ($US)[1] | 17.1% | 66.6% | -8.7% | 1.7% | 11.8% | 13.6% |
| S&P/TSX ($US) | -4.0% | 22.4% | -3.9% | 8.5% | 6.8% | 10.3% |

Rates of return are historical total returns including 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 which 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 Months Results**

During the first six months of 2010 there was wide-spread fear of a sovereign debt crisis arising in some European countries, including Portugal, Ireland, Greece and Spain (PIGS). This led to a crisis of confidence, which resulted in an increase in bond yields and in prices of credit default swaps on several European countries' government bonds. Concern about rising government deficits and debt levels across the globe, together with a wave of downgrades to European Government debt, have created uncertainty in world financial markets, including the United States and Canada.

The debt crisis has been mostly centered on recent events in Greece and there are concerns that Greece and possibly some other troubled European countries may be unable to finance the rising cost of their government debt. In late April 2010, amidst fears of default by the Greek government, Standard & Poor decreased Greece's debt rating to the first level of junk bond status. Following the downgrade, the yield on Greek government two-year bonds rose to 15.9%, up from 6% two weeks earlier.

[1]The alternative method of purchasing Chou RRSP Fund in $US has been offered since September 2005. Performance for years prior to September 2005 are 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.

Positive contributors to the Fund's performance were Danier Leather, Torstar Corporation, Overstock.com, debt securities of Taiga Building Products and Brick Group Income Fund warrants.

Securities in the portfolio that declined the most in the first half of 2010 were TVA Group Inc., MEGA Brands Inc., Symetra Financial and International Forest Products.

**General Comments on the Market**

NON-INVESTMENT GRADE AND INVESTMENT GRADE BONDS ARE NOW FULLY PRICED: Non-investment grade bonds have rallied tremendously from their lows in March 2009, and at current prices we believe they are close to fully priced. For example, three and a half years ago the spread between U.S. corporate high yield debt and U.S. treasuries was 311 basis points. Currently, it is about 696 basis points, down from its peak of over 1,900 basis points in December 2008. (Source: JP Morgan).

Similarly, we believe that investment grade bonds are now close to fully priced.

However, when compared to corporate bonds, U.S. treasuries are in bubble territory. In our opinion, this is the worst time to hold cash and short-term treasuries unless you believe we are headed into a 1930s style depression. And if you believe that you should redeem all your Fund units.

In equities, we believe the financial, retail and pharmaceutical sectors are undervalued.

REVISITING THE BANKS: In the 2006 annual report, we noted our alarm at the cavalier approach of financial institutions with regard to their lending standards, particularly to subprime borrowers. We also expressed concern with the widespread use of derivatives by financial institutions. In the annual letter to unitholders, dated March 2, 2007, I wrote:

> **Derivatives and financial institutions**
>
> We remain a keen and interested observer of derivative instruments. Derivative instruments are financial instruments created by market participants so that they can trade and/or manage more easily the asset upon which these instruments are based. Derivatives are not asset classes unto themselves. Their values are derived solely from an underlying interest, which may be a commodity such as wheat or a financial product such as a bond or stock, a foreign currency, or an economic/stock index.
>
> According to the Bank for International Settlements, contracts outstanding worldwide for derivatives at the end of June 30, 2006 rose to $370 *trillion*. We are alarmed by the exponential rise in the use of derivatives. No one knows how dangerous these instruments can be. They have not been stress tested. However we cannot remain complacent. We believe the risk embedded in derivative instruments is pervasive and most likely not limited or localized to a particular industry. Financial institutions are most vulnerable when (not if) surprises occur – and when they occur they are almost always negative.
>
> As a result, we have not invested heavily in financial institutions although at times their stock prices have come down to buy levels. Some 30 years ago, when an investor looked at a bank, he or she knew what the items on the balance sheet meant. The

investor understood what criteria the bankers used to loan out money, how to interpret the loss reserving history, and how to assess the quality and sustainability of revenue streams and expenses of the bank to generate reasonable earnings.

That was 30 years ago and you can see how easy it was to evaluate a bank.

…. Now, when an investor examines a bank's financials, he or she is subjected to reams of information and numbers but has no way of ascertaining with a high degree of certainty how solid the assets are, or whether the liabilities are all disclosed, or even known, much less properly priced. As the investor digs deeper into the footnotes, instead of becoming enlightened, more doubts may surface about the true riskiness of the bank's liabilities. Those liabilities could be securitized, hidden in derivative instruments or morphed into any number of other instruments that barely resemble the original loans.

It is meant to show just how creative participants have been in producing new derivative products, with little regard for a sound understanding of their leverage and true risk characteristics. We may be witnessing a 'tragedy of the commons' where the search for quick individual profits is causing a system-wide increase in risk and reckless behaviour.

**Sub-prime mortgage lenders**

Some of the greatest excesses of easy credit were committed by sub-prime mortgage lenders. Credit standards were so lax and liberal that homeowners didn't even need to produce proof of ownership to be able to borrow up to 100% or more of the appraised value of their houses.

Companies with the most liberal lending practices have started to report serious, even crippling, financial problems. Some optimists believe that the worst is over. However, they may be in for a surprise. Instead of it being the darkest hour before the dawn, it could be the darkest hour before pitch black. It will take a while (and maybe a long while) for the excesses to wring themselves out of the system.

Well, starting in 2007, financial institutions went through a cataclysm. Directly or indirectly, almost all of them had to be bailed out by the U.S. government. Looking back at the crisis, this is what we have observed:

1) The U.S. government will not let major financial institutions fail.

2) The financial institutions that survive will be the ultimate beneficiaries of any recovery in the economy.

3) Interest rates will be kept at artificially low levels for the foreseeable future. The spreads between what the banks are paying for deposits and borrowings in the market (like FDIC insured), and what they can lend at is enormous. After being severely burned, they have tightened their lending criteria and have been extremely cautious with their lending practices. In general, the quality of loans now

being made are quite high and for the first time in many years, banks are being paid handsomely according to the risks they are taking.

4) Financial institutions in general are hoarding capital. This will provide them with ample cushion to absorb losses if a double dip recession were to occur.

5) The books of financial institutions were carefully examined by all kinds of government agencies, including regulators, before the government allowed them to repay the U.S. Treasury under the Troubled Asset Relief Program (TARP).

6) Most of the big banks are selling below 10 times their potential earning power in the future.

**An Interesting Way to Invest in Banks**
*Please note: the investment described below is the view of the writer and should not be seen as a recommendation.*

One of the more interesting ways to invest in the better capitalized banks is through the stock warrants that were issued to the U.S. Treasury by the banks when they received funds under TARP. The stock warrants give the holder the right to buy the bank's stock at a specific price. When the banks repaid TARP funds to the U.S. Treasury, the U.S. Treasury either sold the stock warrants back to the banks or they auctioned them to the public.

So, what is so unique about these stock warrants?

1) They are long dated, with most expiring in 2018 or 2019. This time frame of eight- plus years allows banks to grow their intrinsic value to a high enough level to have an appreciable impact on the strike price of the stock warrant.

2) The strike price is adjusted downward for any quarterly dividend that exceeds a set price. Normally, you don't see that in a stock warrant. This is a truly stringent condition. In this case we should give the government credit for extracting a pound of flesh. An example: for Bank of America, class 'A' warrants, the strike price is adjusted downward for any quarterly dividend paid exceeding one cent a share.

3) Many of the banks have excess capital on their balance sheet. When the economy settles down, we expect the banks to use this excess capital either for buybacks or a one-time special dividend that may reduce the strike price on the stock warrants if this provision applies.

4) The concerns over financial reform and its ultimate impact on the earning power of the banks may be somewhat exaggerated. We believe the banks will most likely be able to pass the majority of the costs to customers. For an economy to flourish we need sound financial institutions that can generate reasonable profits.

5) Investing in financial institutions requires a leap of faith. Mind you, this leap of faith is no greater than those we make on any company's future prospects, its position in the industry and how well it will do in a future economy. Looking forward, as each year goes by, the quality of earnings of the banks should be higher, the books should be cleaner, the risks will be lower and management will be far more risk averse. Too bad we had to go through so much turmoil to get there.

Below, August 13, 2010 prices of some banks stock warrants.

| Warrants | Warrant Price | Warrant Strike Price | Stock Price | Expiration Date | Strike Price Adjustment |
|---|---|---|---|---|---|
| JP Morgan | $12.51 | $42.42 | $37.50 | 10/28/2018 | Quarterly Dividend over $0.38 |
| Capital One | $14.50 | $42.13 | $38.82 | 11/14/2018 | Quarterly Dividend over $0.375 |
| Bank of America, class B | $2.59 | $30.79 | $13.23 | 10/28/2018 | Quarterly Dividend over $0.32 |
| Bank of America, class A | $7.12 | $13.30 | $13.23 | 1/16/2019 | Quarterly Dividend over $0.01 |
| PNC | $11.50 | $67.33 | $55.09 | 12/31/2018 | Quarterly Dividend over $0.66 |
| Wells Fargo | $7.77 | $34.01 | $25.84 | 10/28/2018 | Quarterly Dividend over $0.34 |
| Comerica | $12.20 | $29.40 | $35.87 | 11/14/2018 | Quarterly Dividend over $0.66 |
| Valley National | $2.24 | $17.77 | $13.48 | 11/14/2018 | Quarterly Dividend over $0.1814 |

6) Even so, everything is not hunky dory for the banks. Banks face many issues and challenges. I have listed a few here:

a) We still do not fully understand or trust the numbers
b) Financial regulatory reform may reduce earning power
c) New Basel rules may require more capital and reduce profits
d) There may be a double dip recession
e) The unemployment rate may go higher and create more defaults
f) Commercial real estate prices may fall dramatically
g) Banks are still not marking loans in their books properly
h) Residential real estate prices may fall further
i) States and municipalities are in bad shape

Our investing horizon is long-term - eight years or more for these bank warrants. Over that period we believe the odds are it will work out to be decent investment - more so for the better capitalized banks. We view it as the glass being more than half full rather than being more than half empty.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2010.

CREDIT DEFAULT SWAPS & CONSTANT MATURITY SWAPS: None were purchased in the first half of 2010.

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

CHANGE IN MINIMUM INVESTMENT: The minimum amount to invest in the Fund is now $5,000 and subsequent investment is $500.

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

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano. The 2009 IRC Annual Report is available on our website www.choufunds.com.

As of August 13, 2010, the NAV of a Series A unit of the Fund was $20.09 and the cash position was 3.9% of net assets. The Fund is up 16.5% from the beginning of the year. In $US, it is up 17.2%.

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

Yours truly,

Francis Chou

Francis Chou
Fund Manager

# CHOU RRSP FUND

## STATEMENT OF NET ASSETS

## AS AT JUNE 30, 2010

**(Unaudited)**

| | 2010 | DEC 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 3,612,979 | $ 2,316,088 |
| Accrued interest and dividend income | 604,358 | 568,082 |
| Receivable for units subscribed | 35,891 | 2,000 |
| Due from broker | - | - |
| Investments, at fair value | 126,814,950 | 116,541,173 |
| | 131,068,178 | 119,427,343 |
| **LIABILITIES** | | |
| Accrued expenses | 221,799 | 189,083 |
| Payable for units redeemed | 523,875 | 209,724 |
| Distributions payable | - | 24,570 |
| | 745,674 | 423,377 |
| **NET ASSETS** | $ 130,322,504 | $ 119,003,966 |
| **NET ASSETS, BY SERIES** | | |
| Series A | $ 127,073,571 | $ 116,081,678 |
| Series F | 3,248,933 | 2,922,288 |
| | $ 130,322,504 | $ 119,003,966 |
| **NUMBER OF UNITS OUTSTANDING** (Note 4) | | |
| Series A | 6,262,034 | 6,815,996 |
| Series F | 159,735 | 171,637 |
| **NET ASSET VALUE PER UNIT** | | |
| **Canadian dollars** | | |
| Series A | $ 20.29 | $ 17.03 |
| Series F | $ 20.34 | $ 17.03 |
| **U.S. dollars** | | |
| Series A | $ 19.14 | $ 16.28 |
| Series F | $ 19.18 | $ 16.27 |

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

Francis Chou

Tracy Chou

# CHOU RRSP FUND
## STATEMENT OF OPERATIONS
## FOR THE PERIOD ENDED JUNE 30, 2010
**(Unaudited)**

| | 2010 | 2009 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Interest | $ 2,236,673 | $ 319,805 |
| Dividends | 1,097,768 | 1,390,849 |
| Income from derivatives | 67,011 | 410,383 |
| | 3,401,452 | 2,121,037 |
| **EXPENSES** | | |
| Management fees (Note 6) | 1,060,084 | 840,413 |
| Custodian fees | 91,998 | 106,494 |
| Audit | 12,137 | 6,844 |
| Legal | 3,561 | 600 |
| Independent Review Committee fees | 3,291 | 3,831 |
| FundSERV fees | 3,220 | - |
| Filing fees | 2,967 | 1,569 |
| Foreign withholding taxes | 2,812 | 37,442 |
| | 1,180,070 | 997,193 |
| **NET INVESTMENT INCOME FOR THE PERIOD** | 2,221,382 | 1,123,844 |
| **NET REALIZED AND UNREALIZED GAIN (LOSS) AND TRANSACTION COSTS** | | |
| Transaction costs | (49,891) | (79,099) |
| Net realized loss on sale of investments | (2,684,330) | (24,239,805) |
| Unrealized gain | 23,169,252 | 22,539,674 |
| | 20,435,031 | (1,779,230) |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS** | $ 22,656,413 | $ (655,386) |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS** | | |
| Series A | $ 22,085,982 | $ (655,994) |
| Series F | 570,431 | 608 |
| | $ 22,656,413 | $ (655,386) |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS, PER UNIT** | | |
| Series A | $ 3.40 | $ (0.08) |
| Series F | $ 3.46 | $ - |

# CHOU RRSP FUND

## STATEMENT OF CHANGES IN NET ASSETS

## FOR THE PERIOD ENDED JUNE 30,2010

**(Unaudited)**

| | 2010 | 2009 |
|---|---|---|
| **SERIES A** | | |
| **NET ASSETS,** beginning of the period | $ 116,081,678 | $ 114,555,564 |
| Increase (decrease) in net assets from operations | 22,085,982 | (655,994) |
| Proceeds from issue of units | 4,079,605 | 1,567,060 |
| Payments on redemption of units | (15,173,694) | (14,156,128) |
| **NET ASSETS,** end of the period | 127,073,571 | 101,310,502 |
| **SERIES F** | | |
| **NET ASSETS,** beginning of the period | 2,922,288 | 3,590,059 |
| Increase in net assets from operations | 570,431 | 608 |
| Proceeds from issue of units | 145,606 | 179,437 |
| Payments on redemption of units | (389,392) | (956,447) |
| **NET ASSETS,** end of the period | 3,248,933 | 2,813,657 |
| **TOTAL NET ASSETS,** end of the period | $ 130,322,504 | $ 104,124,159 |

# CHOU RRSP FUND

## STATEMENT OF INVESTMENTS

## AS AT JUNE 30, 2010

## (Unaudited)

| | No. of Shares or Par Value | Cost | Market Value |
|---|---|---|---|
| **SHARES*** | | | |
| Biovail Corporation | 360,823 | $ 6,674,389 | $ 7,386,047 |
| Canfor Pulp Income Fund | 692,000 | 1,969,160 | 9,930,200 |
| Clublink Enterprises Ltd. | 193,600 | 1,077,639 | 1,213,872 |
| Danier Leather Inc. | 679,200 | 6,453,777 | 6,038,088 |
| E-L Financial Corporation Ltd. | 5,500 | 2,513,503 | 2,475,055 |
| International Forest Products Ltd., Class A | 1,025,500 | 6,098,755 | 4,184,040 |
| King Pharmaceuticals Inc. | 1,115,939 | 11,613,122 | 8,981,567 |
| Liquidation World Inc. | 633,300 | 2,796,915 | 582,636 |
| MEGA Brands Inc. | 9,618,000 | 4,732,518 | 3,943,380 |
| MEGA Brands Inc., warrants | 9,074,000 | 1,188,496 | 1,270,360 |
| Overstock.com Inc. | 715,500 | 14,906,146 | 13,672,070 |
| Rainmaker Entertainment Inc. | 2,536,800 | 5,227,610 | 761,040 |
| Ridley Canada Ltd. | 313,200 | 2,511,607 | 2,311,416 |
| Symetra Financial Corporation | 174,000 | 2,673,000 | 2,206,736 |
| Taiga Building Products Ltd. | 501,700 | 667,261 | 576,955 |
| Brick Group Income Fund, warrants | 10,000,000 | 1,150,000 | 11,700,000 |
| Torstar Corporation, Class B | 1,254,716 | 27,459,812 | 13,187,065 |
| TVA Group Inc., Class B | 733,128 | 10,931,044 | 8,291,678 |
| | | 110,644,754 | 98,712,205 |
| **BONDS** | | | |
| Abitibi-Consolidated Inc., Floating, Jun 15, 2011 | 1,141,000 | 190,188 | 172,413 |
| Abitibi-Consolidated Inc., 7.4%, Apr 1, 2018 | 1,000,000 | 166,685 | 151,107 |
| Abitibi-Consolidated Inc., 7.5%, Apr 1, 2028 | 4,000,000 | 683,477 | 636,240 |
| Abitibi-Consolidated Inc., 8.375%, Apr 1, 2015 | 27,925,000 | 4,692,782 | 4,293,694 |
| Abitibi-Consolidated Inc., 8.5%, Aug 1, 2029 | 3,000,000 | 528,013 | 477,180 |
| Abitibi-Consolidated Inc., 8.55%, Aug 1, 2010 | 116,000 | 19,335 | 18,451 |
| Hollinger Inc., 11.875%, Mar 1, 2011 | 1,450,000 | 1,637,018 | 0 |
| Hollinger Inc., 12.875%, Mar 1, 2011 | 12,568,000 | 14,169,351 | 0 |
| Level 3 Comm., 15.0%, conv., Jan 15, 2013 | 4,500,000 | 5,460,834 | 5,342,032 |
| Taiga Building Products Ltd., 14.0%, Sep 1, 2020 | 6,759,168 | 6,759,168 | 6,458,385 |
| Brick Group Income Fund, 12.0%, May 30, 2014 | 9,861,000 | 8,726,985 | 10,553,243 |
| | | 43,033,836 | 28,102,745 |
| **TOTAL EQUITIES AND BONDS** | | 153,678,590 | 126,814,950 |
| **TRANSACTION COSTS** | | (42,248) | - |
| **PORTFOLIO TOTAL** | | $ 153,636,342 | $ 126,814,950 |

* Common shares unless indicated otherwise

## Risk Management

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

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

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. As of June 30, 2010, the Fund invested approximately 21% of its net assets in non-investment grade debt instruments. Non-investment grade is the term applied to bonds rated below Baa3 on the Moody’s credit rating scale and below BBB- on the equivalent ratings systems from S&P and Fitch. These credit ratings denote that the company’s financial position is weak and its bonds should be considered a speculative investment.

## Interest Rate Risk

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

Debt Instruments by Maturity Date:

| | |
|---|---:|
| Less than 1 year | $ 190,864 |
| 1-3 years | $ 5,342,032 |
| 3-5 years | $ 14,846,936 |
| Greater than 5 years | $ 7,722,913 |

As at June 30, 2010, should interest rates have decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in Net Assets for the period would have amounted to approximately $390,000.

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

### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 76% of the Fund's Net Assets held at June 30, 2010 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2010, the Net Assets of the Fund would have increased or decreased by approximately $4,995,000, or 3.8% of the Net Assets, all other factors remaining constant.

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

### Foreign Currency Risk

Currencies to which the Fund had exposure as at June 30, 2010 are as follow:

| | Financial Instruments ($) | Percentage of NAV (%) |
|---|---|---|
| United States Dollar | 35,988,724 | 27.6% |

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payables) 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, as at June 30, 2010, net assets would have decreased or increased by approximately $368,000.

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

### Fair Value Hierarchy

The following is a summary of the inputs used as at June 30, 2010 in valuing the Fund's investments carried at fair value, as described in Note 2.

| | Quoted prices in active markets for identical assets | Significant observable inputs | Significant unobservable inputs | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Equities - Long** | $ 96,400,789 | $ 2,311,416 | $ - | $ 98,712,205 |
| **Bonds** | - | 28,102,745 | - | 28,102,745 |
| | 96,400,789 | 30,414,161 | - | 126,814,950 |
| **Options - Short** | - | - | - | - |
| **Total** | **$ 96,400,789** | **$ 30,414,161** | **$ -** | **$ 126,814,950** |

Fair value measurements using level 3 inputs:

| | Equities – Long | Bonds | Total |
|---|---|---|---|
| **Balance at December 31, 2009** | $ 2,851,325 | $ 1,554,979 | $ 4,406,304 |
| Net purchases and sales | - | (2,074,326) | (2,074,326) |
| Net transfer in (out) | (2,673,000) | - | (2,673,000) |
| Gains (losses) | | | |
| Realized | - | 347,164 | 347,164 |
| Unrealized | (178,325) | 172,183 | (6,142) |
| **Balance at June 30, 2010** | **$ -** | **$ -** | **$ -** |

## 1. FORMATION OF CHOU FUNDS

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

The Funds were formed on the following dates:

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions made by the Manager that may affect the reported amount of assets, liabilities, income and expenses during the reporting period. Actual results could materially differ from those estimates.

(b) Amendments to Section 3862, Financial Instruments - Disclosures

In June 2009, the Canadian Accounting Standards Board incorporated the recent amendments to International Financial Reporting Standards 7, Financial Instruments: Disclosures, into CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments expand the disclosures required in respect of fair value measurements recognized in the financial statements. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced 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 asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

The amendments are applicable for fiscal years ending after September 30, 2009. These changes will have no impact on the Funds' results of operations or financial position.

**2. SIGNIFICANT ACCOUNTING POLICIES,** continued

(c) Valuation of Investments

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

National Instrument 81-106 – Investment Fund Continuous Disclosure ("NI 81-106") requires all investment funds to calculate net asset value for all purposes other than financial statements in accordance with part 14.2. This requirement allows the Funds to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP called "GAAP Net Assets" (or "net assets"), and another called " Transactional NAV" (or "net asset value"). A reconciliation between GAAP Net Assets per unit and Transactional NAV per unit is provided in Note 7.

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

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

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

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

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES,** continued

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

Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price, volatility and terms of the warrant.

Forward contracts are marked to market using last bid prices for long positions and the last asked price for short positions. Last trade price is used where bid and ask prices are not available.

The fair value of interest rate swap agreements is the estimated amount that the Funds would receive or pay to terminate the swap, taking into account current interest rates and the current credit worthiness of the swap counterparties.

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

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

(d) Other Assets and Liabilities

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

(e) Cost of Investments

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued

(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 Section 3855, transaction costs are expensed and are included in the Statements of Operation in “Transaction Costs”.

(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-dividends dates.

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

Distributions from investments sold short are accrued as earned and are reported as a liability in the Statement of Net Assets in “Interest and dividends payable on investments sold short” and as an expense in the Statements of Operations in “Interest and dividend expense on investments sold short”. The gain or loss that would be realized if, on the valuation date the short position were to be closed out, is reflected in the Statement of Operations in “Unrealized gain (loss) on investments” and in the Statements of Net Assets in “ Investments sold short, at fair value”. When the short position is closed out, gains and losses are realized and included in the Statements of Operations in “Net realized gain (loss) on sale of investments”.

**2. SIGNIFICANT ACCOUNTING POLICIES,** continued

(i) Translation of Foreign Currency

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

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

(j) Derivative Transactions

The Manager may choose to use options, future contracts, forward contracts, forward currency contracts and swaps to hedge against losses from changes in the prices of the Funds’ investments and from exposure to foreign currencies or gain exposure to individual securities and markets instead of buying and selling securities directly. There can be no assurance that the hedging strategies will be effective. Losses may also arise if the counterparty does not perform under the contract.

*Options*

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

**2. SIGNIFICANT ACCOUNTING POLICIES,** continued

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

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

*Forward Currency Contracts*

The change in value of forward currency contracts is included in the Statements of Operations in "Unrealized gain (loss) on investments" and in the Statements of Net Assets in "Unrealized gain (loss) on forward currency contracts". When a forward currency contract is closed out, gains and losses are realized and included in the Statements of Operations in "Net realized foreign exchange gain (loss).

*Future Contracts*

The value of futures contracts fluctuates daily and cash settlement made daily by the Funds are equal to the unrealized gains or losses on a "mark to market" basis. All gains or losses are recorded and reported in the Statements of Operations in "Income (loss) from derivatives". Margin paid or deposited in respect of futures contracts is reflected in the Statements of Net Assets in "Margin deposited on derivatives". Any change in the variation margin requirement is settled daily.

*Interest Rate Swaps*

The value of a swap contract is the gain or loss that would be realized if, on the valuation date, the position were to be closed out. It is reflected in the Statements of Operations in "Unrealized gain (loss) on investments" and in the Statements of Net Assets in "Unrealized gain (loss) on other derivatives". When swap contracts are closed out, gains or losses are realized and are included in the Statements of Operations in "Income (loss) from derivatives".

**2. SIGNIFICANT ACCOUNTING POLICIES,** continued

*Credit Default Swaps*

The change in value of a swap contract is included in the Statements of Operations in "Unrealized gain (loss) on investments" and in the Statements of Net Assets in "Unrealized gain (loss) on other derivatives. When swap contracts are closed out, gains or losses are realized and included in the Statements of Operations in "Income (loss) from derivatives".

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

(m) Securities Lending

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

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

(a) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. The fair value of a financial instrument takes into account the credit rating of its issuer, and accordingly, represents the maximum credit risk exposure of a Fund. The Fund's main credit risk concentration is in debt securities and trading derivative instruments which are exposed in the respective Fund's Statement of Investments. All transactions in securities are settled or paid for upon delivery through brokers. As such, credit risk is considered minimal in the Funds on investment transactions, as delivery of securities sold is made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(b) Interest Rate Risk

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

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT,** continued

(c) Currency Risk

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

(d) Liquidity Risk

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

(e) Other Price Risk

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

## 4. UNITHOLDER CAPITAL

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

| | Series A | | Series F | |
|---|---|---|---|---|
| | **Jun-10** | **Dec-09** | **Jun-10** | **Dec-09** |
| **CHOU ASSOCIATES FUND** | | | | |
| Units outstanding, beginning of the period | 6,861,528 | 7,620,577 | 419,050 | 573,132 |
| Add: Units issued during the period | 159,024 | 198,277 | 61,808 | 71,767 |
| Deduct: Units redeemed during the period | (526,662) | (1,103,965) | (87,220) | (235,203) |
| Units outstanding before income distribution | 6,493,890 | 6,714,889 | 393,638 | 409,696 |
| Add: Units issued on reinvested income | - | 146,639 | - | 9,354 |
| Units outstanding, end of the period | 6,493,890 | 6,861,528 | 393,638 | 419,050 |
| **CHOU ASIA FUND** | | | | |
| Units outstanding, beginning of the period | 4,183,867 | 4,626,077 | 169,765 | 94,206 |
| Add: Units issued during the period | 147,741 | 370,829 | 64,552 | 103,128 |
| Deduct: Units redeemed during the period | (473,915) | (889,566) | (73,946) | (32,052) |
| Units outstanding before income distribution | 3,857,693 | 4,107,340 | 160,370 | 165,282 |
| Add: Units issued on reinvested income | - | 76,527 | - | 4,483 |
| Units outstanding, end of the period | 3,857,693 | 4,183,867 | 160,370 | 169,765 |
| **CHOU EUROPE FUND** | | | | |
| Units outstanding, beginning of the period | 1,141,295 | 1,157,290 | 38,357 | 43,097 |
| Add: Units issued during the period | 9,026 | 45,875 | - | 928 |
| Deduct: Units redeemed during the period | (97,276) | (166,111) | (7,896) | (9,323) |
| Units outstanding before income distribution | 1,053,045 | 1,037,054 | 30,461 | 34,702 |
| Add: Units issued on reinvested income | - | 104,241 | - | 3,655 |
| Units outstanding, end of the period | 1,053,045 | 1,141,295 | 30,461 | 38,357 |

## 4. UNITHOLDER CAPITAL, continued

| | Series A | | Series F | |
|---|---|---|---|---|
| | **Jun-10** | **Dec-09** | **Jun-10** | **Dec-09** |
| **CHOU BOND FUND** | | | | |
| Units outstanding, beginning of the period | 6,801,007 | 7,153,342 | 1,556,801 | 1,170,405 |
| Add: Units issued during the period | 246,572 | 672,766 | 139,365 | 592,000 |
| Deduct: Units redeemed during the period | (1,170,829) | (1,404,564) | (139,173) | (290,413) |
| Units outstanding before income distribution | 5,876,749 | 6,421,544 | 1,556,993 | 1,471,992 |
| Add: Units issued on reinvested income | - | 379,463 | - | 84,809 |
| Units outstanding, end of the period | 5,876,749 | 6,801,007 | 1,556,993 | 1,556,801 |
| **CHOU RRSP FUND** | | | | |
| Units outstanding, beginning of the period | 6,815,996 | 8,407,207 | 171,637 | 263,736 |
| Add: Units issued during the period | 186,889 | 173,249 | 6,937 | 16,545 |
| Deduct: Units redeemed during the period | (740,851) | (1,870,494) | (18,839) | (111,861) |
| Units outstanding before income distribution | 6,262,034 | 6,709,962 | 159,735 | 168,420 |
| Add: Units issued on reinvested income | - | 106,034 | - | 3,217 |
| Units outstanding, end of the period | 6,262,034 | 6,815,996 | 159,735 | 171,637 |

## 5. DUE TO RELATED PARTY

Included in accrued expenses of each fund are the following amounts due to Chou Associates Management Inc., for management fees payable:

| | Jun 2010 | Dec 2009 |
|---|---|---|
| Chou Associates Fund | $ 646,933 | $ 655,474 |
| Chou Asia Fund | 79,021 | 83,390 |
| Chou Europe Fund | 9,676 | 11,645 |
| Chou Bond Fund | 75,001 | 71,742 |
| Chou RRSP Fund | 176,267 | 145,256 |

## 6. MANAGEMENT FEES AND EXPENSES

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

## 7. RECONCILIATION OF TRANSACTIONAL NAV TO GAAP NET ASSETS

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

| | | Net Asset Value ($) | | | Net Asset Value per Unit ($) | | |
|---|---|---|---|---|---|---|---|
| | Series | Transactional NAV | Section 3855 Adjustment | GAAP Net Assets | Transactional NAV | Section 3855 Adjustment | GAAP Net Assets |
| Chou Associates | A | 464,999,714 | (758,535) | 464,241,179 | 71.61 | (0.12) | 71.49 |
| Fund | F | 28,211,099 | (45,887) | 28,165,213 | 71.67 | (0.12) | 71.55 |
| Chou Asia | A | 58,712,884 | (4,507) | 58,708,377 | 15.22 | - | 15.22 |
| Fund | F | 2,455,805 | (188) | 2,455,616 | 15.31 | - | 15.31 |
| Chou Europe | A | 7,388,383 | (11,585) | 7,376,798 | 7.02 | (0.01) | 7.01 |
| Fund | F | 216,204 | (338) | 215,866 | 7.10 | (0.01) | 7.09 |
| Chou Bond | A | 60,869,649 | (23,046) | 60,846,603 | 10.36 | (0.01) | 10.35 |
| Fund | F | 16,123,523 | (6,097) | 16,117,425 | 10.36 | (0.01) | 10.35 |
| Chou RRSP | A | 128,165,984 | (1,092,413) | 127,073,571 | 20.47 | (0.18) | 20.29 |
| Fund | F | 3,276,787 | (27,853) | 3,248,933 | 20.51 | (0.17) | 20.34 |

## 8. BROKERS' COMMISSIONS

Total commissions paid to brokers in connection with portfolio transactions for the period ended June 30, 2010 and for the period ended June 30, 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| Chou Associates Fund | $ 376,015 | $ 48,358 |
| Chou Asia Fund | 49,891 | 516 |
| Chou Europe Fund | 5,093 | 586 |
| Chou Bond Fund | 49,955 | 2,022 |
| Chou RRSP Fund | 198,685 | 79,099 |

## 9. RELATED PARTY TRANSACTIONS

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.

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

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

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

| | |
|---|---|
| Chou Associates Fund | $ 45,321,728 |
| Chou Asia Fund | 1,783,170 |
| Chou Europe Fund | 2,492,409 |
| Chou Bond Fund | 12,797,752 |
| Chou RRSP Fund | 9,190,416 |

## 11. CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Accounting Standards Board ("AcSB") has confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to financial years beginning on or after January 1, 2011 and will be applicable to the Funds for the fiscal year beginning July 1, 2011.

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

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager expects that the impact of IFRS on the funds' financial statements will be additional disclosures and potentially different presentation of certain items.

In June 2010, the AcSB of the CICA proposed that investment funds may defer adoption of IFRS until years beginning on or after January 1, 2012. The Manager is taking this proposal into consideration as it develops its plan to meet the IFRS timetable.

## NOTES

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## CHOU RRSP FUND
**(Unaudited)**

**Illustration of an assumed investment of $10,000 in Canadian dollars**

| Period ended | Value of initial $10,000 investment | Value of cumulative reinvested capital distributions | Value of cumulative reinvested dividends | Total value of shares |
|---|---|---|---|---|
| Dec.31, 1986 | $10,000 | 0 | 0 | 10,000 |
| Dec.31, 1987 | 9,980 | 187 | 650 | 10,818 |
| Dec.31, 1988 | 10,709 | 553 | 1,018 | 12,281 |
| Dec.31, 1989 | 11,530 | 1,308 | 1,512 | 14,350 |
| Dec.31, 1990 | 9,272 | 1,314 | 2,136 | 12,722 |
| Dec.31, 1991 | 9,342 | 1,324 | 2,618 | 13,284 |
| Dec.31, 1992 | 10,069 | 1,427 | 3,004 | 14,500 |
| Dec.31, 1993 | 11,616 | 1,646 | 3,465 | 16,727 |
| Dec.31, 1994 | 10,131 | 1,436 | 3,394 | 14,961 |
| Dec.31, 1995 | 11,764 | 1,667 | 4,377 | 17,808 |
| Dec.31, 1996 | 14,335 | 2,032 | 5,368 | 21,735 |
| Dec.31, 1997 | 19,953 | 4,048 | 8,740 | 32,741 |
| Dec.31, 1998 | 17,421 | 12,259 | 9,126 | 38,806 |
| Dec.31, 1999 | 15,467 | 11,914 | 8,836 | 36,217 |
| Dec.31, 2000 | 16,931 | 13,580 | 11,677 | 42,188 |
| Dec.31, 2001 | 19,135 | 16,493 | 13,742 | 49,370 |
| Dec.31, 2002 | 22,735 | 24,861 | 17,499 | 65,095 |
| Dec.31, 2003 | 24,871 | 28,059 | 19,728 | 72,658 |
| Dec.31, 2004 | 27,896 | 32,038 | 22,429 | 82,362 |
| Dec.31, 2005 | 31,259 | 37,164 | 26,871 | 95,294 |
| Dec.31, 2006 | 33,326 | 39,622 | 31,531 | 104,479 |
| Dec.31, 2007 | 27,859 | 38,841 | 28,117 | 94,817 |
| Dec.31, 2008 | 13,510 | 18,836 | 22,283 | 54,629 |
| Dec.31, 2009 | 16,995 | 23,693 | 29,130 | 69,818 |
| June 30, 2010 | | | | **$ 82,839** |

NOTE: Rates of return are historical total returns including 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 which 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.

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