



**LETKO  
BROSSEAU**

**LETKO BROSSEAU EMERGING MARKETS EQUITY FUND  
LETKO BROSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**

---

**ANNUAL FINANCIAL STATEMENTS**

*DECEMBER 31, 2017 AND 2016*

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND  
LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Contents**

Independent Auditors' Report	
Statements of Financial Position	2
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	3
Statements of Comprehensive Income	4
Statements of Cash Flows	5
Schedule of Investment Portfolio	6
Notes to Financial Statements	9

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of  
**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**

### *Report on the Financial Statements*

We have audited the statements of financial position of **LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND / LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS** (the "Fund") as at December 31, 2017 and 2016, the statements of changes in net assets attributable to holders of redeemable units, comprehensive income and cash flows for the years ended December 31, 2017 and 2016 and the accompanying notes, including a summary of significant accounting policies and other explanatory information.

### *Fund Manager's Responsibilities for the Financial Statements*

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND / LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS** as at December 31, 2017 and 2016, its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

1

Partnership of Chartered Professional Accountants

Montreal, March 22, 2018

<sup>1</sup>CPA auditor, CA, public accountancy permit No. A122335

**LETKO BROSSAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROSSAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
 STATEMENTS OF FINANCIAL POSITION  
 AS AT DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
<b>Current assets</b>		
Cash	722,264	13,844,125
Investments	1,347,489,630	1,001,372,346
Receivable for investments sold	1,258,524	-
Interest, dividends and other receivables	4,774,561	2,057,824
	1,354,244,979	1,017,274,295
<b>Current liabilities</b>		
Amounts payable on redemptions of redeemable units	482,757	3,238,178
Amounts payable for investments purchased	1,022,024	600,354
Accrued expenses	203,017	227,652
	1,707,798	4,066,184
<b>Net assets attributable to holders of redeemable units</b>	1,352,537,181	1,013,208,111

**Supplementary information**

<b>Number of redeemable units in circulation (note 5)</b>	110,189,867	95,702,039
<b>Net assets per unit attributable to holders of redeemable units (note 6)</b>	\$ 12.2746	\$ 10.5871

Approved by the Board of Directors of Letko, Brosseau & Associates Inc., Fund Manager



\_\_\_\_\_  
 Daniel Brosseau, Director



\_\_\_\_\_  
 Peter Letko, Director

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
STATEMENTS OF CHANGES IN NET ASSETS  
ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	1,013,208,111	906,249,938
<b>Change in net assets attributable to holders of redeemable units</b>	258,389,513	172,844,546
<b>Redeemable unit transactions</b>		
Proceeds from issuance	154,555,102	58,175,913
Reinvestment of distributions	96,521,776	95,952,845
Redemptions	(73,523,376)	(123,991,885)
	177,553,502	30,136,873
<b>Distributions to holders of redeemable units (note 6)</b>		
Net investment income	(36,070,590)	(39,602,990)
Net realized gain on sale of investments	(60,543,355)	(56,420,256)
	(96,613,945)	(96,023,246)
<b>Net assets attributable to holders of redeemable units, end of year</b>	1,352,537,181	1,013,208,111

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
<b>Investment income</b>		
Interest income for distribution purposes	83,709	208,611
Dividend income	43,807,351	42,680,437
Foreign exchange gain (loss) on cash	(915,814)	(1,499,609)
Net realized gain (loss) on sale of investments	85,415,361	64,711,692
Net changes in unrealized appreciation (depreciation) of investments	136,977,712	71,010,951
	265,368,319	177,112,082
<b>Expenses</b>		
Trustee fees (note 9)	1,642,153	1,246,886
Professional fees	12,483	21,180
Filing fees	40,851	2,842
Consulting fees	19,689	-
Withholding taxes	4,118,425	2,207,108
Portfolio transaction costs	1,145,205	789,520
	6,978,806	4,267,536
<b>Change in net assets attributable to holders of redeemable units</b>	258,389,513	172,844,546
<b>Change in net assets per unit attributable to holders of redeemable units (note 3)</b>	2.5695	1.8671

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Change in net assets attributable to holders of redeemable units	258,389,513	172,844,546
Adjustments or variations for :		
Foreign exchange (gain) loss on cash	915,814	1,499,609
Net realized (gain) loss on sale of investments	(85,415,361)	(64,711,692)
Net changes in unrealized (appreciation) depreciation of investments	(136,977,712)	(71,010,951)
Proceeds from sale or maturity of investments	425,962,812	302,733,192
Investments purchased	(550,433,234)	(267,437,004)
Interest, dividends and other receivables	(2,716,737)	(645,843)
Receivable for investments sold	(1,258,524)	-
Amounts payable on redemptions of redeemable units	(2,755,421)	2,994,314
Amounts payable for investments purchased	421,670	600,354
Accrued expenses	(24,635)	112,776
	<u>(93,891,815)</u>	<u>76,979,301</u>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	154,555,102	58,175,913
Amounts paid on redemptions of redeemable units	(73,523,376)	(123,991,885)
Distributions paid in cash to holders of redeemable units	(92,169)	(70,401)
	<u>80,939,557</u>	<u>(65,886,373)</u>
<b>Change in cash</b>	(12,952,258)	11,092,928
Cash, beginning of year	13,844,125	2,530,139
Effect of exchange rate changes on foreign cash	(169,603)	221,058
<b>Cash, end of year</b>	<u>722,264</u>	<u>13,844,125</u>

**Supplementary information**

Interest received	\$ 71,452	\$ 220,957
Dividends received, net of withholding taxes	\$ 37,418,622	\$ 39,816,729
Interest paid	\$ 3,517	\$ 1,589

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2017

	Quantity	Cost	Fair Value
		\$	\$
<b>Equities</b>			
<b>Energy</b>			
CNOOC	20,095,000	35,120,957	36,137,337
Gazprom, ADR	799,700	7,794,210	4,418,730
PTT Exploration and Production	9,881,000	36,548,362	37,988,168
Reliance Industries	897,935	17,651,895	32,120,539
TMK OAO	325,000	3,955,678	1,885,368
		101,071,102	112,550,142
<b>Materials</b>			
China Lumena New Materials Corp.	12,780,000	3,666,663	2
Ivanhoe Mines, Class A	4,030,900	5,193,947	17,091,016
MMC Norilsk Nickel PJSC, ADR	1,677,838	31,641,096	39,395,937
PT Semen Gresik (Persero) Tbk	24,849,500	26,470,241	22,718,771
Suzano Papel e Celulose SA	2,543,900	11,542,049	17,959,044
		78,513,996	97,164,770
<b>Industrial Products</b>			
Air Arabia PJSC	17,085,665	7,386,057	7,227,488
Air China	12,497,000	11,977,659	18,988,444
Alfa S.A.B. de C.V.	11,500,000	19,878,259	15,921,878
Aramex PJSC	1,892,000	1,458,670	2,775,386
Beijing Capital International Airport	16,469,275	11,399,713	31,095,321
Beijing Enterprises Holdings	5,604,400	40,450,287	41,679,489
Bidvest Group	516,231	12,540,488	11,394,383
Companhia de Concessoes Rodoviaras	4,380,200	29,646,623	26,720,239
Enka Insaat ve Sanayi	3,790,843	6,923,035	7,553,751
Ferreycorp SAA	24,466,000	18,758,027	24,122,514
Global Ports Investments, Class S, GDR	1,178,377	13,827,178	5,610,475
Globaltrans Investment	1,196,000	15,958,112	14,071,117
GMR Infrastructure	55,000,000	19,667,525	24,238,350
J Kumar Infraprojects	1,124,988	6,166,624	6,626,215
Sinotrans	21,000,000	13,121,512	12,891,200
Wizz Air Holdings	192,300	5,283,371	11,994,305
		234,443,140	262,910,555
<b>Consumer Discretionary</b>			
Cox and Kings	2,497,040	12,856,446	13,332,709
Geely Automobile Holdings	3,550,000	1,261,024	15,419,593
Global Mediacom	415,594,200	29,475,147	22,644,017
Mint Group	1,806,900	3,344,397	13,654,980
Yamaha Motor Co.	430,000	5,209,672	17,671,910
		52,146,686	82,723,209
<b>Consumer Staples</b>			
Clover Industries	11,058,505	20,630,887	14,661,509
Kernel Holding	900,700	10,797,222	15,433,278
MHP	952,591	11,732,638	13,725,751
		43,160,747	43,820,538

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2017

	Quantity	Cost \$	Fair Value \$
<b>Equities (continued)</b>			
<b>Health Care</b>			
Fleury	400,000	1,420,075	4,473,756
MicroPort Scientific Corporation	8,099,000	5,338,144	9,800,622
Shandong Weigao Group Medical Polymer Co.	31,648,000	27,998,145	28,862,491
Sinopharm Group Co., Class H	6,592,400	23,804,083	35,713,756
		58,560,447	78,850,625
<b>Financial Services</b>			
Axis Bank	413,395	8,801,862	22,634,894
Credicorp	55,000	12,122,482	14,294,404
DBS Group Holdings	1,482,000	26,976,722	34,527,803
First Pacific Company	26,625,902	25,240,059	22,618,066
ICICI Bank, ADR	1,787,500	13,177,148	21,791,679
Sberbank, ADR	926,000	11,266,693	19,657,670
Sberbank, ADR (Germany)	181,900	2,474,235	3,881,789
Turkiye Garanti Bankasi	2,943,475	12,023,225	10,427,128
Warsaw Stock Exchange	988,000	12,550,862	16,740,328
		124,633,288	166,573,761
<b>Real Estate</b>			
Aliance Shopping Centers	3,228,300	20,832,977	21,998,055
Atrium European Real Estate	4,211,576	21,018,786	26,296,212
		41,851,763	48,294,267
<b>Technology</b>			
FIH Mobile	13,000,000	5,723,405	4,959,017
HCL Technologies	1,626,922	24,488,048	28,439,677
Infosys, ADR	1,444,987	21,945,900	29,558,099
Kingboard Laminates Holdings	10,486,500	5,249,139	20,471,663
MediaTek	850,000	8,304,102	10,521,729
Pegatron Corporation	2,400,000	4,358,905	7,275,529
Persistent Systems	1,000,000	12,692,725	14,094,460
Samsung Electronics Co.	5,000	3,727,818	7,505,137
Samsung Electronics, GDR	23,600	17,196,941	35,293,621
		103,686,983	158,118,932
<b>Telecommunication Services</b>			
China Mobile, ADR	622,400	35,707,886	39,412,741
Mobile TeleSystems, ADR	895,900	16,113,285	11,438,407
MTN Group	635,100	11,965,538	8,780,187
Ooredoo	148,518	4,295,955	4,649,570
Singapore Telecommunications	1,355,000	3,180,642	4,535,257
Turkcell Iletisim Hizmetleri	3,441,000	20,997,636	17,602,128
		92,260,942	86,418,290

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2017

	Quantity	Cost \$	Fair Value \$
<b>Equities (continued)</b>			
<b>Utilities</b>			
Aygaz	1,268,625	6,060,532	6,736,878
China Water Affairs Group	23,673,000	7,737,036	26,825,510
Companhia de Gas de Sao Paulo, A Shares	968,237	20,936,337	21,943,545
Companhia de Saneamento Básico do Estado de São Paulo, ADR	1,388,500	14,344,525	18,180,004
Companhia Paranaense de Energia - COPEL, Class P, ADR	2,835,350	37,542,609	27,105,849
EDP - Energias de Portugal SA	397,100	1,597,626	1,723,638
Manila Water Company	33,864,000	22,014,416	23,841,213
Power Grid Corporation of India	7,176,213	22,919,808	28,223,357
		133,152,889	154,579,994
<b>Closed-end Investment Funds</b>			
Morgan Stanley India Investment Fund	475,150	7,968,261	19,735,406
The India Fund	151,586	3,131,328	4,960,941
		11,099,589	24,696,347
<b>Total Equities</b>		1,074,581,572	1,316,701,430
	<b>Par Value</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
<b>Money Market Securities</b>			
Canada Treasury Bills 2018-01-25	2,200,000	2,198,196	2,198,196
Ontario Treasury Bills 2018-01-10	1,440,000	1,439,164	1,439,164
Province of Alberta, notes 2018-03-12	13,130,000	15,671,712	15,383,112
Province of Québec, notes 2018-01-09	10,000	12,752	12,515
2018-02-20	5,800,000	7,364,106	7,248,401
2018-03-19	3,050,000	3,918,934	3,807,225
Province of Saskatchewan, notes 2018-01-11	700,000	699,587	699,587
<b>Total Money Market Securities</b>		31,304,451	30,788,200
<b>Portfolio Transaction Costs Included in the Securities' Cost</b>		(2,490,795)	
<b>Total Investments</b>		1,103,395,228	1,347,489,630

The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2017 AND 2016

## **1. ESTABLISHMENT OF THE FUND**

The Letko Brousseau Emerging Markets Equity Fund / Letko Brousseau Fonds d'actions de marchés émergents (the "Fund") is a private unit investment trust created under trust agreement established on November 30, 2004 under the laws of the province of Ontario. The registered office is located at 155 Wellington Street West, Toronto, Ontario, Canada, M5V 3L3.

The trust agreement designates RBC Investor Services Trust as the trustee, custodian and accountant of the Fund (the "Trustee") and Letko, Brousseau & Associates Inc. as the manager of the Fund (the "Manager").

## **2. BASIS OF PRESENTATION**

These financial statements, for which the functional and presentation currency is the Canadian dollar, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") and comply with the requirements of the Canadian Securities Administrators ("CSA").

The financial statements were authorized for issue by the Manager's Board of Directors on March 22, 2018.

These financial statements have been prepared on a historical cost basis with the exception of cash and investments which are measured at fair value.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Financial instruments**

#### *Recognition and measurement*

Purchases and sales of financial assets as well as the assumption and settlement of financial liabilities are recognized on the date of the transaction. The Fund recognizes financial instruments at fair value upon initial recognition. Cash and investments held for trading purposes, are classified as financial assets at fair value through profit or loss. These assets are subsequently measured at fair value and the difference between the unrealized appreciation (depreciation) at the beginning and the end of the year is recognized in the statements of comprehensive income. All other financial assets and liabilities, with the exception of the Fund's obligation for net assets attributable to holders of redeemable units, are subsequently measured at amortized cost. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount as described in note 6.

Portfolio transaction costs incurred by the Fund for the sale and purchase of investments are recorded in the statements of comprehensive income.

#### *Fair value measurement*

The fair value of the Fund's investments traded in active markets is determined using the quoted market prices at the close of trading on the date of the financial statements. The closing market price is either obtained from an accredited stock exchange where the security has the highest trading volume or from independent and renowned brokerage houses. In the event where the last closing market price does not fall within the bid-ask spread on the date of the financial statements, the Manager and the Trustee determine the point within the bid-ask spread that is most representative of fair value based on the facts and circumstances. Investment fund units held for trading that are not traded in active markets are measured at fair value based on their net asset value as determined by their trustee.

The Fund's accounting policies for measuring the fair value of its investments are consistent with those used to determine the net asset value for transactions with unitholders.

Information on the reliability of the fair value measurement of financial assets is disclosed in note 12. The transfer of a financial asset from one fair value hierarchy level to another is performed at the date of the event or change in circumstances which would justify a change in level.

**LETKO BROSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2017 AND 2016

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Revenue recognition**

Investment income is accounted for using the accrual method of accounting. Interest income for distribution purposes is recognized when it is earned. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds which are amortized using the effective interest rate method. Dividends are recognized on the ex-dividend date and distributions on investment fund units are recorded at the ex-distribution date. Realized gains and losses upon disposition of investments are recognized on the trade date and are calculated using the average cost method.

#### **Foreign currency translation**

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates the transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the exchange rate prevailing at the date of the financial statements. Foreign exchange gains and losses are presented in the statements of comprehensive income.

#### **Change in net assets per unit attributable to holders of redeemable units**

This change, presented in the statements of comprehensive income, represents the variation in net assets per unit attributable to holders of redeemable units based on the average number of redeemable units that were in circulation during the year.

#### **Use of estimates, judgments and assumptions**

The preparation of these financial statements in accordance with IFRS requires the Manager to make judgments in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements.

#### *Investment entity*

The Manager has determined that the Fund meets the definition of an investment entity in accordance with IFRS 10 Consolidated Financial Statements. An investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services, commits to its investors that its business purpose is to invest funds as for the sole purpose of achieving returns in the form of capital gains and investment income and evaluates and assesses the performance of all of its investments on the basis of fair value. Given that the Fund meets these criteria, the investments held are all designated as fair value through profit or loss.

### **4. FUTURE ACCOUNTING STANDARDS**

IFRS 9 Financial Instruments ("IFRS 9") effective for annual periods beginning on or after January 1, 2018 addresses the classification and measurement of financial assets and financial liabilities and will replace IAS 39, the standard currently in effect for financial instruments. Based on an analysis of the financial assets and financial liabilities as at December 31, 2017 with consideration of the facts and circumstances that existed at that date, the Manager has assessed the potential impact of IFRS 9. It has determined that upon adoption, the Fund's investment portfolio will continue to be classified as fair value through profit or loss. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements other than modifications in note disclosures in accordance with the new standard.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
 NOTES TO FINANCIAL STATEMENTS  
 AS AT DECEMBER 31, 2017 AND 2016

**5. REDEEMABLE UNITS IN CIRCULATION**

The Fund is authorized to issue an unlimited number of series of units each of which can contain an unlimited number of units, without par value. All units are voting, participating and redeemable by the unitholders at the net asset value.

Since its inception, the Fund has issued only one series of redeemable units.

	2017	2016
<b>Number of redeemable units in circulation, beginning of year</b>	95,702,039	92,744,914
<b>Number of redeemable units issued and redeemed during the year</b>		
Issued for cash and other consideration	12,638,418	5,443,851
Issued on reinvestment of distributions	8,020,635	9,209,662
Redeemed	(6,171,225)	(11,696,388)
<b>Number of redeemable units in circulation, end of year</b>	<b>110,189,867</b>	<b>95,702,039</b>

**6. VALUATION OF REDEEMABLE UNITS AND DISTRIBUTIONS**

The net asset value per unit, which represents the redemption amount, is determined by dividing the Fund's net assets at fair value by the number of redeemable units in circulation at the end of each valuation date.

Income from dividends and interest, net of expenses of the Fund, is accounted for in the net assets attributable to holders of redeemable units. At the end of each month, income received, net of expenses paid, is distributed and reinvested as additional redeemable units or, at the discretion of the unitholders, is paid in cash. Realized gains and losses resulting from investment transactions are accounted for in the net assets attributable to holders of redeemable units and the net realized gain on investment transactions is distributed and reinvested at the end of the fiscal year as additional redeemable units or, at the discretion of the unitholders, is paid in cash.

**7. CAPITAL DISCLOSURES**

The capital of the Fund is represented by redeemable units issued and in circulation. According to its mission, substantially all of the Fund's capital is invested in securities. Information about the Fund's objectives, policies and procedures for managing its capital is disclosed in note 11. The Fund is not subject to any particular external requirement for managing its capital.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
 NOTES TO FINANCIAL STATEMENTS  
 AS AT DECEMBER 31, 2017 AND 2016

**8. RELATED PARTY TRANSACTIONS**

The following table presents a summary of the transactions during the year between the Fund and related parties. Related parties are represented by the Manager, directors of the Manager, corporations controlled by the directors of the Manager, family members of the directors and a deferred profit sharing plan for the benefit of the Manager's employees.

2017	Manager \$	Other related parties \$
<b>Redeemable units issued and redeemed</b>		
Issued for cash and other consideration	-	37,949,386
Issued on reinvestment of distributions	2,817,620	31,318,081
Redeemed	(6,111,572)	(3,499,809)
	<b>(3,293,952)</b>	<b>65,767,658</b>

2016	Manager \$	Other related parties \$
<b>Redeemable units issued and redeemed</b>		
Issued for cash and other consideration	-	22,648,103
Issued on reinvestment of distributions	3,352,609	29,119,237
Redeemed	-	(9,139)
	<b>3,352,609</b>	<b>51,758,201</b>

These transactions took place in the normal course of operations and are measured at the net asset value at the date of the transactions.

As at December 31, 2017 and 2016, related parties held units of the Fund with an aggregate fair market value of the following:

	2017 \$	2016 \$
Manager	38,451,825	35,975,295
Other related parties	105,372,503	70,409,092
	<b>143,824,328</b>	<b>106,384,387</b>

**9. FEES**

Trustee fees are calculated according to an agreement between the Manager and the Trustee.

Management fees of the Manager are invoiced directly to the unitholders.

**10. INCOME TAXES**

In accordance with provisions of the Income Tax Act (Canada) and the Quebec Taxation Act, the Fund qualifies as a mutual fund and has elected to choose a December 15<sup>th</sup> taxation year-end. The Fund is taxed on its income received and not distributed to unitholders. The Fund distributes to unitholders the total income from dividends and interest, net of expenses and a sufficient portion of net realized taxable capital gains to eliminate the income taxes.

**LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
 NOTES TO FINANCIAL STATEMENTS  
 AS AT DECEMBER 31, 2017 AND 2016

**11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS**

**Analysis of risk management**

In accordance with its “Policy and Guidelines”, the Fund’s investment objective is to optimize returns by building a well-diversified international portfolio comprised primarily of publicly traded companies exposed to more rapidly growing developing economies. In order to minimize the risks associated with financial instruments, the Manager applies a strategy of diversification across economic regions and industrial sectors.

When the Fund invests in other investment funds, it may be indirectly exposed to risks related to the financial instruments held by these funds, according to their investment objectives and the type of securities they hold.

**Credit risk**

The credit risk associated with the Fund’s investments in money market securities is insignificant given their short-term maturities.

The risk of default on transactions with counterparties related to investments is considered minimal since the transaction would fail if either party did not fulfill its obligation.

**Liquidity risk**

The Fund’s units are redeemable at the option of the holder thereby exposing the Fund to liquidity risk. The Manager ensures a minimum cash balance to meet the Fund’s obligations. Although the Fund is exposed to redemptions of units, liquidity risk is mitigated by the fact that the majority of its assets consist of investments traded on a stock exchange or an organized market. In addition, at the Manager’s discretion, the Fund may pay the redemptions in securities instead of cash.

**Market risks**

For the disclosure of market risks, IFRS requires that a sensitivity analysis be presented showing the effects of reasonable possible changes in relevant risk variables on the value of net assets attributable to holders of redeemable units. The Manager has applied these reasonable changes to the relevant indices based on the Fund’s actual asset mix for the year ended December 31, 2017 rather than on the target asset mix as was done in the financial statements for the year ended December 31, 2016. The comparative information presented below has been modified to reflect this change.

The Manager considers that this sensitivity analysis, showing the impact on the value of financial instruments from changes in the market, is based on a highly unlikely assumption that all other variables remain constant. Moreover, considering the many interrelationships between the various components of market risk, the Manager is of the opinion that it is not possible to quantify the impact of market fluctuations due to the interdependence of these components. Consequently, in practice, actual results may differ from the sensitivity analyses presented below and differences could be material.

**Price risk**

Given the investments held, the Fund is exposed to the inherent risk associated with fluctuations in the market due to the uncertainty regarding the investments’ future price. Consequently, the maximum risk to which the Fund is exposed corresponds to the fair value of its investments.

The Manager’s best estimate of the upward or downward impact on the Fund’s investments and net assets as a result of reasonable probable changes in benchmark indices, with all other variables being equal, is as follows:

Benchmark indices	Changes in %	2017 Impact \$	2016 Impact \$
DB Fed Funds Effective Rate	0.25	67,000	25,000
MSCI Emerging Markets	3.00	39,616,000	29,741,000

**LETKO BROSSEAU EMERGING MARKETS EQUITY FUND**  
**LETKO BROSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2017 AND 2016

**11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)**

**Market risks (continued)**

***Currency risk***

The Fund holds securities of foreign issuers in its investment portfolio. The value of these securities is dependent on fluctuations in currency rates. These fluctuations may increase the short-term volatility of foreign securities in the markets and affect the short-term performance of the Fund.

The Fund holds assets denominated in foreign currencies for which the distribution is as follows:

	2017 % of net assets	2016 % of net assets
Foreign currencies		
U.S. dollars	27.92	31.60
Hong Kong dollars	23.54	24.30
Brazilian real	7.00	8.37
Indian rupee	10.96	-
Other currencies representing less than 5% individually	28.73	28.99

As at December 31, 2017, an increase or decrease of 3% in the value of Canadian currency compared to foreign currencies, with all other variables being equal, would have resulted in an upward or downward variation of the Fund's investments and net assets of \$39,822,000 (2016: \$28,341,000).

***Interest rate risk***

Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

Given that the Fund does not hold investments in bonds, it is not directly exposed to an interest rate risk on debt securities. The value of bonds held by the Fund through its holdings in other investment funds is not significant. Consequently, the interest rate risk associated with these investments is not significant.

The Fund's investments in equities are exposed to interest rate risk. This is due to the fact that their value is dependent on the rate used in discounting future dividends and to the general effect from changes in the interest rates on the economy as a whole, the availability of credit and the profitability of companies. The Manager believes that it is not possible to quantify the impact of the variations taking into account the interdependence of these components.

**12. INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS**

The financial instruments measured at fair value are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination:

- Level 1: financial instruments for which the fair value is determined using quoted prices in active markets;
- Level 2: financial instruments for which the fair value is determined using pricing models based on market observable inputs;
- Level 3: financial instruments for which the fair value is determined using pricing models based on market unobservable inputs.

As at December 31, 2017 and 2016, the investments held by the Fund and measured at fair value are all classified in Level 1.

The financial instruments not measured at fair value through profit or loss are short term financial assets and liabilities whose carrying amounts approximate fair value.

**13. FILING EXEMPTION FOR FINANCIAL STATEMENTS**

The Fund has advised the CSA that it is exempt under section 2.11 of NI 81-106 from annual filing requirements to the Canadian regulation authorities since all the requirements have been met.