



**LETKO  
BROSSEAU**

**LETKO BROSSEAU RSP BOND FUND  
LETKO BROSSEAU FONDS RER D'OBLIGATIONS**

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**ANNUAL FINANCIAL STATEMENTS**

*DECEMBER 31, 2016 AND 2015*

**LETKO BROUSSEAU RSP BOND FUND  
LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of  
**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**

### *Report on the Financial Statements*

We have audited the statements of financial position of **LETKO BROUSSEAU RSP BOND FUND / LETKO BROUSSEAU FONDS RER D'OBLIGATIONS** (the "Fund") as at December 31, 2016 and 2015, the statements of changes in net assets attributable to holders of redeemable units, comprehensive income and cash flows for the years ended December 31, 2016 and 2015 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.

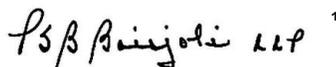
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 RSP BOND FUND / LETKO BROUSSEAU FONDS RER D'OBLIGATIONS** as at December 31, 2016 and 2015, its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.



Partnership of Chartered Professional Accountants

Montreal, March 17, 2017

<sup>1</sup>FCPA auditor, FCA, public accountancy permit No. A108253

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
 STATEMENTS OF FINANCIAL POSITION  
 AS AT DECEMBER 31, 2016 AND 2015

	2016	2015
	\$	\$
<b>Current assets</b>		
Cash	-	103,856
Investments	52,034,621	45,597,318
Interest and other receivables	248,484	205,879
	52,283,105	45,907,053
<b>Current liabilities</b>		
Bank indebtedness	3,020	-
Amounts payable on redemptions of redeemable units	200	200
Accrued expenses	17,142	29,333
	20,362	29,533
<b>Net assets attributable to holders of redeemable units</b>	52,262,743	45,877,520

**Supplementary information**

<b>Number of redeemable units in circulation (note 5)</b>	5,313,953	4,593,326
<b>Net assets per unit attributable to holders of redeemable units (note 6)</b>	\$ 9.8350	\$ 9.9879

On behalf 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 RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
 STATEMENTS OF CHANGES IN NET ASSETS  
 ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	\$	\$
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	45,877,520	43,859,065
<b>Change in net assets attributable to holders of redeemable units</b>	601,428	889,103
<b>Redeemable unit transactions</b>		
Proceeds from issuance	12,997,326	14,022,557
Reinvestment of distributions	1,378,596	1,597,888
Redemptions	(7,213,531)	(12,893,205)
	7,162,391	2,727,240
<b>Distributions to holders of redeemable units (note 6)</b>		
Net investment income	(1,302,258)	(1,296,387)
Net realized gain on sale of investments	(76,338)	(301,501)
	(1,378,596)	(1,597,888)
<b>Net assets attributable to holders of redeemable units, end of year</b>	52,262,743	45,877,520

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	\$	\$
<hr/>		
<b>Investment income</b>		
Interest income for distribution purposes	1,328,512	1,323,044
Net realized gain on sale of investments	76,338	304,213
Net changes in unrealized depreciation of investments	(781,024)	(701,908)
	<hr/> 623,826	<hr/> 925,349
<hr/>		
<b>Expenses</b>		
Trustee fees (note 8)	8,323	19,369
Professional fees	14,075	13,061
Filing fees	-	3,816
	<hr/> 22,398	<hr/> 36,246
<hr/>		
<b>Change in net assets attributable to holders of redeemable units</b>	601,428	889,103
<hr/>		
<b>Change in net assets per unit attributable to holders of redeemable units (note 3)</b>	0.1266	0.2045
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The accompanying notes are an integral part of the financial statements.

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	\$	\$
<b>Cash flows used in operating activities</b>		
Change in net assets attributable to holders of redeemable units	601,428	889,103
Adjustments or variations for :		
Net realized gain on sale of investments	(76,338)	(304,213)
Net changes in unrealized depreciation of investments	781,024	701,908
Proceeds from sale or maturity of investments	27,883,832	22,110,901
Investments purchased	(35,025,821)	(24,485,929)
Interest and other receivables	(42,605)	43,406
Amounts payable on redemptions of redeemable units	-	200
Accrued expenses	(12,191)	8,754
	(5,890,671)	(1,035,870)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of redeemable units	12,997,326	14,022,557
Amounts paid on redemptions of redeemable units	(7,213,531)	(12,893,205)
	5,783,795	1,129,352
<b>Change in cash</b>	(106,876)	93,482
Cash, beginning of year	103,856	10,374
<b>Cash, end of year</b>	(3,020)	103,856

**Supplementary information**

Interest received	\$ 1,285,913	\$ 1,366,450
Interest paid	\$ 6	\$ 164

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2016

	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds</b>			
<b>Federal Government</b>			
Canada Housing Trust			
3.750%, 2020-03-15	440,000	493,955	475,411
1.200%, 2020-06-15	800,000	799,914	798,602
3.350%, 2020-12-15	445,000	495,217	479,165
3.800%, 2021-06-15	305,000	349,070	335,817
2.650%, 2022-03-15	325,000	350,504	342,094
		2,488,660	2,431,089
<b>Provincial Governments and Crown Corporations</b>			
Alberta Capital Finance Authority			
4.650%, 2017-06-15	525,000	535,908	534,225
Financement-Québec			
2.400%, 2018-12-01	1,105,000	1,108,781	1,133,502
floating rate, 2019-05-29	1,140,000	1,140,758	1,146,013
2.450%, 2019-12-01	275,000	273,320	284,028
Hydro-Québec			
floating rate, 2018-09-03	575,000	575,719	577,328
11.000%, 2020-08-15	510,000	788,453	679,696
9.630%, 2022-07-15	90,000	134,253	126,369
Newfoundland & Labrador Hydro			
10.250%, 2017-07-14	90,000	96,896	94,424
Ontario Electricity Financial Corporation			
10.750%, 2021-08-06	50,000	76,345	69,795
10.125%, 2021-10-15	145,000	206,790	200,323
8.900%, 2022-08-18	175,000	246,967	239,196
8.250%, 2026-06-22	25,000	38,188	36,653
Province of Alberta			
1.700%, 2017-12-15	435,000	435,522	438,930
1.350%, 2021-09-01	1,100,000	1,093,091	1,085,214
2.550%, 2022-12-15	465,000	493,420	480,138
Province of British Columbia			
9.950%, 2021-05-15	225,000	336,519	303,431
4.800%, 2021-06-15	315,000	376,638	358,032
7.875%, 2023-11-30	400,000	554,660	535,560
Province of Manitoba			
floating rate, 2017-04-03	300,000	302,700	300,318
4.700%, 2017-09-22	105,000	111,281	107,960
floating rate, 2018-04-02	1,400,000	1,407,434	1,404,501
5.500%, 2018-11-15	565,000	611,583	611,367
4.150%, 2020-06-03	1,175,000	1,280,750	1,280,509
3.850%, 2021-12-01	115,000	125,810	126,350
Province of New Brunswick			
Series FP, 6.000%, 2017-12-27	125,000	135,405	131,312
4.450%, 2018-03-26	810,000	817,426	845,291
4.400%, 2019-06-03	260,000	274,352	279,670
floating rate, 2019-08-01	840,000	840,068	838,777
4.500%, 2020-06-02	560,000	638,980	616,227

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2016

	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds (continued)</b>			
<b>Provincial Governments and Crown Corporations (continued)</b>			
Province of Newfoundland			
Series 5X, 10.950%, 2021-04-15	45,000	63,607	61,639
9.150%, 2025-07-07	50,000	75,575	72,952
Province of Nova Scotia			
floating rate, 2018-08-15	1,975,000	1,981,821	1,979,102
4.150%, 2019-11-25	1,000,000	1,023,860	1,080,315
4.100%, 2021-06-01	435,000	499,343	479,797
9.600%, 2022-01-30	200,000	282,136	273,266
Province of Ontario			
2.100%, 2018-09-08	585,000	577,389	595,937
floating rate, 2018-12-03	1,785,000	1,785,714	1,790,358
4.400%, 2019-06-02	1,790,000	1,975,928	1,927,794
floating rate, 2019-08-26	2,000,000	2,003,884	2,001,144
4.200%, 2020-06-02	430,000	490,650	469,799
floating rate, 2021-10-27	500,000	500,000	499,010
1.350%, 2022-03-08	475,000	472,293	464,918
3.150%, 2022-06-02	1,895,000	1,943,781	2,021,957
2.600%, 2025-06-02	1,195,000	1,252,083	1,214,347
Province of Québec			
floating rate, 2018-12-19	1,430,000	1,430,996	1,435,411
floating rate, 2019-08-21	190,000	190,000	190,485
3.750%, 2024-09-01	1,000,000	1,150,130	1,104,132
Province of Saskatchewan			
1.95%, 2019-03-01	300,000	304,914	305,459
		33,062,121	32,832,961
<b>Municipalities and Parapublic Institutions</b>			
City of Edmonton			
8.500%, 2018-09-14	60,000	68,765	67,251
City of Toronto			
5.050%, 2017-07-18	95,000	104,193	97,156
4.950%, 2018-06-27	870,000	876,430	919,338
4.500%, 2019-12-02	1,030,000	1,037,956	1,118,550
3.500%, 2021-12-06	75,000	82,017	80,465
City of Vancouver			
4.900%, 2019-12-02	465,000	464,423	510,439
Municipal Finance Authority of British Columbia			
4.800%, 2017-12-01	125,000	137,799	129,457
4.600%, 2018-04-23	705,000	718,762	737,914
2.350%, 2018-12-03	625,000	647,069	639,084
2.050%, 2019-06-02	225,000	230,276	228,950
4.450%, 2020-06-01	200,000	223,251	219,044
Regional Municipality of Peel			
3.500%, 2021-12-01	315,000	313,652	338,127

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2016

	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds (continued)</b>			
<b>Municipalities and Parapublic Institutions (continued)</b>			
Regional Municipality of York			
5.000%, 2019-04-29	250,000	249,398	270,917
4.500%, 2020-06-30	80,000	89,312	87,782
4.000%, 2021-06-30	85,000	94,556	92,878
		5,337,859	5,537,352
<b>Total Canadian Government Bonds</b>		40,888,640	40,801,402
<b>Corporate Bonds</b>			
Alimentation Couche-Tard			
2.860%, 2017-11-01	225,000	225,568	227,777
3.320%, 2019-11-01	230,000	232,443	239,433
Bank of Montreal			
1.880%, 2021-03-31	50,000	49,998	49,950
Bank of Nova Scotia			
3.270%, 2021-01-11	185,000	199,225	194,898
Bell Canada			
2.000%, 2021-10-01	150,000	149,642	148,393
Canadian Natural Resources			
3.550%, 2024-06-03	25,000	26,094	25,283
Capital Power Corporation			
4.850%, 2019-02-21	20,000	20,467	20,837
5.280%, 2020-11-16	750,000	753,396	806,885
Cominar Real Estate Investment Trust			
4.230%, 2019-12-04	80,000	82,342	82,840
4.940%, 2020-07-27	355,000	365,086	375,453
EPCOR Utilities			
5.800%, 2018-01-31	225,000	240,172	235,936
First Capital Realty			
5.480%, 2019-07-30	385,000	383,549	417,661
Series M, 5.600%, 2020-04-30	330,000	333,971	364,892
4.790%, 2024-08-30	30,000	34,002	32,870
4.323%, 2025-07-31	50,000	54,538	52,829
Greater Toronto Airports Authority			
Series 99-1, 6.450%, 2029-07-30	5,742	6,279	7,110
Loblaw Companies			
3.748%, 2019-03-12	80,000	84,108	83,563
Pembina Pipeline Corporation			
4.890%, 2021-03-29	265,000	275,022	290,802
Rogers Communications			
4.700%, 2020-09-29	35,000	38,416	38,379
4.000%, 2024-03-13	285,000	300,362	306,882
Royal Bank of Canada			
2.770%, 2018-12-11	100,000	104,474	102,581
1.920%, 2020-07-17	200,000	202,900	200,947
1.970%, 2022-03-02	305,000	303,289	302,176

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
SCHEDULE OF INVESTMENT PORTFOLIO  
AS AT DECEMBER 31, 2016

	Par Value	Cost \$	Fair Value \$
<b>Corporate Bonds (continued)</b>			
Saputo 2.654%, 2019-11-26	55,000	56,443	56,348
Shaw Communications 5.700%, 2017-03-02	295,000	285,508	297,057
Suncor Energy 5.800%, 2018-05-22	370,000	322,455	392,063
TELUS Corporation 1.500%, 2018-03-27	65,000	64,974	65,130
Series CG 5.050%, 2019-12-04	35,000	39,141	38,224
5.050%, 2020-07-23	175,000	200,662	193,111
3.600%, 2021-01-26	300,000	319,264	316,922
3.350%, 2024-04-01	35,000	36,456	35,921
Thomson Reuters Corporation 3.310%, 2021-11-12	350,000	367,213	363,704
TransAlta Corporation 6.400%, 2019-11-18	395,000	393,847	420,789
<b>Total Corporate Bonds</b>		6,551,306	6,787,646
<b>Total Bonds</b>		47,439,946	47,589,048
<b>Money Market Securities</b>			
Canada Treasury Bills 2017-01-12	495,000	494,931	494,931
2017-01-26	675,000	674,750	674,750
2017-02-09	100,000	99,922	99,922
2017-02-23	500,000	499,355	499,355
2017-03-09	400,000	399,484	399,484
2017-03-23	400,000	399,484	399,484
Ontario Treasury Bills 2017-01-18	400,000	399,468	399,468
Province of Alberta, notes 2017-01-24	500,000	499,325	499,325
2017-02-21	400,000	399,460	399,460
2017-02-28	400,000	399,540	399,540
Province of Saskatchewan, notes 2017-01-23	180,000	179,854	179,854
<b>Total Money Market Securities</b>		4,445,573	4,445,573
<b>Total Investments</b>		51,885,519	52,034,621

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

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2016 AND 2015

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

The Letko Brosseau RSP Bond Fund / Letko Brosseau Fonds RER d'obligations (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, Brosseau & Associates Inc. is 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 on March 17, 2017.

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.

#### *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.

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 11. 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 BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2016 AND 2015

**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. 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 Manager did not have to make judgments or estimates that would have a significant impact on the financial information presented.

**4. FUTURE ACCOUNTING STANDARDS**

The IASB has issued a new accounting standard, IFRS 9 Financial Instruments ("IFRS 9"), for which mandatory application is required for annual periods beginning on or after January 1, 2018. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities and intends to replace IAS 39, the standard currently in effect for financial instruments. Early adoption of this standard is permitted; however, the Manager has not early adopted the standard in the Fund's financial statements. The Manager and the Trustee have not yet assessed the impact of this new standard on the Fund's financial statements.

**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.

	2016	2015
<b>Number of redeemable units in circulation, beginning of year</b>	4,593,326	4,321,661
<b>Number of redeemable units issued and redeemed during the year</b>		
Issued for cash and other consideration	1,305,798	1,358,903
Issued on reinvestment of distributions	138,718	187,656
Redeemed	(723,889)	(1,274,894)
<b>Number of redeemable units in circulation, end of year</b>	<b>5,313,953</b>	<b>4,593,326</b>

**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**  
NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2016 AND 2015

**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 and, at the end of each month, may be distributed and reinvested as additional redeemable units or, at the discretion of the unitholders, 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 may be distributed and reinvested at the end of the fiscal year as additional redeemable units or, at the discretion of the unitholders, 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 investments. Information about the Fund's objectives, policies and procedures for managing its capital is disclosed in note 10. The Fund is not subject to any particular external requirement for managing its capital.

**8. 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.

**9. INCOME TAXES**

In accordance with provisions of the Income Tax Act (Canada) and the Quebec Taxation Act, the Fund qualifies as a unit trust and is taxed on its income earned and not distributed to unitholders. The Fund allocates to unitholders the total income from interest, net of expenses and a sufficient portion of net realized taxable capital gains to eliminate the income taxes.

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**10. 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 bond portfolio, without taking undue risk of loss or impairment. The portfolio consists generally of Canadian bonds and money market securities, but can also include, on a lesser scale, equities, foreign bonds and foreign pay bonds. In order to minimize the risks associated with financial instruments, the Manager applies a strategy of diversification across issuers, economic regions and industrial sectors.

**Credit risk**

The Fund's maximum exposure to credit risk is the carrying value of debt securities included in investments, as well as interest and other receivables presented on the statements of financial position. 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.

The majority of the credit risk to which the Fund is exposed to arises from its investments in debt securities. The Manager is of the opinion that the credit risk associated with these investments in debt securities is limited given that the Fund invests in issuers with high credit ratings. The Fund holds bonds for which the credit rating breakdown is as follows:

Bonds by credit rating	2016 % of net assets	2015 % of net assets
AAA	11.33	11.91
AA	26.84	25.68
A	42.74	44.93
BBB	10.14	10.37

Credit ratings attributed to money market securities are not presented above since the related credit risk is insignificant given their short-term maturities.

**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 which can easily be liquidated. 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 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.

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

**Market risks (continued)**

**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 %	2016 Impact \$	2015 Impact \$
FTSE TMX Canada 91-day Treasury Bills	0.25	7,000	6,000
FTSE TMX Canada Universe Bond Index	1.00	494,000	433,000

**Currency risk**

The Fund is not exposed to a significant currency risk given the small proportion of its investments in foreign securities.

**Interest rate risk**

The Fund is exposed to interest rate risk primarily on its bonds with maturity dates as follows:

Bonds by maturity date	2016 \$	2015 \$
Less than 1 year	2,358,618	1,310,498
1 to 5 years	37,555,789	34,580,080
5 to 10 years	7,667,541	6,717,019
10 years and more	7,110	7,683
Total	47,589,048	42,615,280

An increase or decrease of 1% in interest rates, with all other variables being equal, would have resulted in an upward or downward variation of the Fund's investments and net assets in the amount of \$1,203,000 (2015: \$1,108,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

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**11. 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.

The investments held by the Fund and measured at fair value are classified as follows:

	Level 1	Level 2	Total
	\$	\$	\$
2016			
Bonds	35,264,050	12,324,998	47,589,048
Money market securities	4,445,573	-	4,445,573
	39,709,623	12,324,998	52,034,621
2015			
Bonds	32,253,130	10,362,150	42,615,280
Money market securities	2,982,038	-	2,982,038
	35,235,168	10,362,150	45,597,318

No investments were transferred within the levels between the years ended December 31, 2015 and 2016.

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.

**12. 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.