



**LETKO
BROSSEAU**

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

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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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, 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 RSP BOND FUND / LETKO BROUSSEAU FONDS RER D'OBLIGATIONS** 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.

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Partnership of Chartered Professional Accountants

Montreal, March 22, 2018

¹CPA auditor, CA, public accountancy permit No. A122335

LETKO BROUSSEAU RSP BOND FUND
LETKO BROUSSEAU FONDS RER D'OBLIGATIONS
 STATEMENTS OF FINANCIAL POSITION
 AS AT DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
Current assets		
Cash	68,331	-
Investments	48,741,215	52,034,621
Interest and other receivables	244,265	248,484
	49,053,811	52,283,105
Current liabilities		
Bank indebtedness	-	3,020
Amounts payable on redemptions of redeemable units	1,000	200
Accrued expenses	15,445	17,142
	16,445	20,362
Net assets attributable to holders of redeemable units	49,037,366	52,262,743

Supplementary information

Number of redeemable units in circulation (note 5)	5,094,311	5,313,953
Net assets per unit attributable to holders of redeemable units (note 6)	\$ 9.6259	\$ 9.8350

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 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, 2017 AND 2016

	2017	2016
	\$	\$
Net assets attributable to holders of redeemable units, beginning of year	52,262,743	45,877,520
Change in net assets attributable to holders of redeemable units	448,138	601,428
Redeemable unit transactions		
Proceeds from issuance	5,027,079	12,997,326
Reinvestment of distributions	1,504,904	1,378,596
Redemptions	(8,700,594)	(7,213,531)
	(2,168,611)	7,162,391
Distributions to holders of redeemable units (note 6)		
Net investment income	(1,504,904)	(1,302,258)
Net realized gain on sale of investments	-	(76,338)
	(1,504,904)	(1,378,596)
Net assets attributable to holders of redeemable units, end of year	49,037,366	52,262,743

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, 2017 AND 2016

	2017	2016
	\$	\$
Investment income		
Interest income for distribution purposes	1,527,912	1,328,512
Net securities lending income (note 8)	115	-
Net realized gain (loss) on sale of investments	(20,455)	76,338
Net changes in unrealized appreciation (depreciation) of investments	(1,026,269)	(781,024)
	481,303	623,826
Expenses		
Trustee fees (note 9)	22,298	8,323
Professional fees	9,722	14,075
Filing fees	1,145	-
	33,165	22,398
Change in net assets attributable to holders of redeemable units	448,138	601,428
Change in net assets per unit attributable to holders of redeemable units (note 3)	0.0868	0.1266

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, 2017 AND 2016

	2017	2016
	\$	\$
Cash flows from (used in) operating activities		
Change in net assets attributable to holders of redeemable units	448,138	601,428
Adjustments or variations for :		
Net realized (gain) loss on sale of investments	20,455	(76,338)
Net changes in unrealized (appreciation) depreciation of investments	1,026,269	781,024
Proceeds from sale or maturity of investments	19,995,038	27,883,832
Investments purchased	(17,748,356)	(35,025,821)
Interest and other receivables	4,219	(42,605)
Amounts payable on redemptions of redeemable units	800	-
Accrued expenses	(1,697)	(12,191)
	3,744,866	(5,890,671)
Cash flows from (used in) financing activities		
Proceeds from issuance of redeemable units	5,027,079	12,997,326
Amounts paid on redemptions of redeemable units	(8,700,594)	(7,213,531)
	(3,673,515)	5,783,795
Change in cash	71,351	(106,876)
Cash, beginning of year	(3,020)	103,856
Cash, end of year	68,331	(3,020)
 Supplementary information		
Interest received	\$ 1,532,131	\$ 1,285,913
Interest paid	\$ -	\$ 6

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, 2017

	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds			
Federal Government			
Canada Housing Trust			
3.750%, 2020-03-15	155,000	174,007	161,492
1.200%, 2020-06-15	800,000	799,914	787,860
3.350%, 2020-12-15	445,000	495,217	463,304
3.800%, 2021-06-15	305,000	349,070	323,341
2.650%, 2022-03-15	325,000	350,504	332,527
		2,168,712	2,068,524
Provincial Governments and Crown Corporations			
CPPIB Capital			
1.400%, 2020-06-04	400,000	400,340	395,115
Financement-Québec			
2.400%, 2018-12-01	1,105,000	1,108,781	1,113,118
floating rate, 2019-05-29	1,140,000	1,140,758	1,147,256
2.450%, 2019-12-01	275,000	273,320	278,078
Hydro-Québec			
11.000%, 2020-08-15	510,000	788,453	626,724
9.625%, 2022-07-15	90,000	134,253	118,687
Newfoundland & Labrador Hydro			
stripped, 2020-08-27	250,000	238,756	235,064
Ontario Hydro Energy			
10.750%, 2021-08-06	50,000	76,345	64,698
10.125%, 2021-10-15	145,000	206,790	186,504
8.900%, 2022-08-18	175,000	246,967	225,372
8.250%, 2026-06-22	25,000	38,188	35,395
Province of Alberta			
1.350%, 2021-09-01	1,100,000	1,093,091	1,071,840
1.600%, 2022-09-01	200,000	199,522	194,503
2.550%, 2022-12-15	465,000	493,420	471,397
Province of British Columbia			
9.950%, 2021-05-15	225,000	336,519	282,158
4.800%, 2021-06-15	315,000	376,638	343,807
7.875%, 2023-11-30	400,000	554,660	509,420
Province of Manitoba			
5.500%, 2018-11-15	565,000	611,583	584,140
4.150%, 2020-06-03	675,000	735,750	710,346
1.600%, 2020-09-05	500,000	497,255	495,553
3.850%, 2021-12-01	115,000	125,810	122,354
Province of New Brunswick			
4.450%, 2018-03-26	810,000	817,426	816,246
4.400%, 2019-06-03	260,000	274,352	269,605
floating rate, 2019-08-01	840,000	840,068	842,939
4.500%, 2020-06-02	560,000	638,980	593,666
Province of Newfoundland			
1.125%, 2019-01-30	400,000	398,320	397,572
Series 5X, 10.950%, 2021-04-15	45,000	63,607	57,337
1.950%, 2022-06-02	200,000	199,700	197,202
9.150%, 2025-07-07	50,000	75,575	71,708

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, 2017

	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds (continued)			
Provincial Governments and Crown Corporations (continued)			
Province of Nova Scotia			
floating rate, 2018-08-15	1,975,000	1,981,819	1,979,161
4.150%, 2019-11-25	1,400,000	1,455,011	1,460,008
stripped, 2019-12-01	200,000	194,625	192,528
4.100%, 2021-06-01	2,010,000	2,185,852	2,144,761
9.600%, 2022-01-30	200,000	282,136	256,393
Province of Ontario			
floating rate, 2018-12-03	1,785,000	1,785,713	1,791,606
4.400%, 2019-06-02	1,790,000	1,975,931	1,856,577
floating rate, 2019-08-26	2,000,000	2,003,883	2,009,069
4.200%, 2020-06-02	430,000	490,650	453,110
floating rate, 2021-10-27	500,000	500,000	505,851
1.350%, 2022-03-08	475,000	472,293	459,623
3.150%, 2022-06-02	1,895,000	1,943,780	1,971,561
2.600%, 2025-06-02	1,195,000	1,252,085	1,202,786
Province of Prince Edward Island			
4.250%, 2019-09-24	450,000	471,375	468,144
Province of Québec			
floating rate, 2018-12-19	1,430,000	1,430,996	1,435,764
floating rate, 2019-08-21	190,000	190,000	191,090
3.750%, 2024-09-01	1,000,000	1,150,130	1,081,948
Province of Saskatchewan			
1.950%, 2019-03-01	300,000	304,914	301,128
3.200%, 2024-06-03	475,000	501,885	497,238
		33,558,305	32,716,150
Municipalities and Parapublic Institutions			
City of Edmonton			
8.500%, 2018-09-14	60,000	68,765	62,832
City of Toronto			
4.950%, 2018-06-27	870,000	876,430	884,780
4.500%, 2019-12-02	1,030,000	1,037,956	1,079,295
3.500%, 2021-12-06	75,000	82,017	78,567
City of Ottawa			
3.250%, 2020-10-19	400,000	420,488	413,424
City of Vancouver			
4.900%, 2019-12-02	465,000	464,423	491,120
Municipal Finance Authority of British Columbia			
4.600%, 2018-04-23	705,000	718,762	712,499
2.350%, 2018-12-03	625,000	647,069	629,592
2.050%, 2019-06-02	225,000	230,275	225,969
4.450%, 2020-06-01	200,000	223,251	211,735
Regional Municipality of Peel			
3.500%, 2021-12-01	315,000	313,652	329,608

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, 2017

	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds (continued)			
Municipalities and Parapublic Institutions (continued)			
Regional Municipality of York			
5.000%, 2019-04-29	250,000	249,398	260,554
4.500%, 2020-06-30	80,000	89,312	84,788
4.000%, 2021-06-30	85,000	94,556	90,165
		5,516,354	5,554,928
Total Canadian Government Bonds		41,243,371	40,339,602
Corporate Bonds			
Alimentation Couche-Tard			
3.319%, 2019-11-01	230,000	232,443	234,318
Bank of Montreal			
1.880%, 2021-03-31	250,000	247,308	246,245
Bank of Nova Scotia			
2.130%, 2020-06-15	100,000	101,400	99,724
3.270%, 2021-01-11	185,000	199,225	189,961
Bell Canada			
2.000%, 2021-10-01	150,000	149,642	146,888
3.000%, 2022-10-03	200,000	201,868	202,421
Canadian Natural Resources			
3.550%, 2024-06-03	25,000	26,094	25,477
Capital Power Corporation			
4.850%, 2019-02-21	20,000	20,467	20,528
5.276%, 2020-11-16	750,000	753,396	794,863
Cominar Real Estate Investment Trust			
4.230%, 2019-12-04	80,000	82,342	81,094
4.941%, 2020-07-27	355,000	365,086	365,322
EPCOR Utilities			
5.800%, 2018-01-31	225,000	240,172	225,704
First Capital Realty			
5.480%, 2019-07-30	385,000	383,549	403,732
Series M, 5.600%, 2020-04-30	330,000	333,971	352,615
4.790%, 2024-08-30	30,000	34,002	32,388
4.323%, 2025-07-31	50,000	54,538	52,480
Greater Toronto Airports Authority			
Series 99-1, 6.450%, 2029-07-30	5,447	5,957	6,635
Loblaw Companies			
3.748%, 2019-03-12	80,000	84,108	81,587
Pembina Pipeline Corporation			
4.890%, 2021-03-29	265,000	275,022	282,687
Rogers Communications			
4.700%, 2020-09-29	35,000	38,416	37,147
4.000%, 2024-03-13	285,000	300,362	301,931
Royal Bank of Canada			
2.770%, 2018-12-11	100,000	104,474	100,859
1.920%, 2020-07-17	300,000	303,725	297,489
1.968%, 2022-03-02	305,000	303,289	298,846

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, 2017

	Par Value	Cost \$	Fair Value \$
Corporate Bonds (continued)			
Saputo 2.654%, 2019-11-26	55,000	56,443	55,465
TELUS Corporation 1.500%, 2018-03-27	65,000	64,974	64,998
Series CG, 5.050%, 2019-12-04	35,000	39,141	36,864
5.050%, 2020-07-23	175,000	200,662	186,670
3.600%, 2021-01-26	300,000	319,264	310,041
3.350%, 2024-04-01	35,000	36,456	35,642
Thomson Reuters Corporation 3.309%, 2021-11-12	350,000	367,213	358,765
Toronto-Dominion Bank 1.693%, 2020-04-02	100,000	100,390	98,873
TransAlta Corporation 6.400%, 2019-11-18	395,000	393,847	417,589
Total Corporate Bonds		6,419,246	6,445,848
Total Bonds		47,662,617	46,785,450
Money Market Securities			
Canada Treasury Bills 2018-01-25	200,000	199,610	199,610
2018-02-08	425,000	424,451	424,451
Ontario Treasury Bills 2018-02-28	415,000	413,958	413,958
2018-03-07	20,000	19,954	19,954
Québec Treasury Bills 2018-03-16	20,000	19,949	19,949
Province of Alberta, notes 2018-01-23	180,000	179,588	179,588
2018-02-27	415,000	413,971	413,971
2018-03-12	20,000	19,949	19,949
Province of Québec, notes 2018-03-05	265,000	264,335	264,335
Total Money Market Securities		1,955,765	1,955,765
Total Investments		49,618,382	48,741,215

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, 2017 AND 2016

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. 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.

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 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 BROUSSEAU RSP BOND FUND
LETKO BROUSSEAU FONDS RER D'OBLIGATIONS
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. Income from securities lending is recorded when earned. 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 RSP BOND FUND
LETKO BROUSSEAU FONDS RER D'OBLIGATIONS
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
Number of redeemable units in circulation, beginning of year	5,313,953	4,593,326
Number of redeemable units issued and redeemed during the year		
Issued for cash and other consideration	515,393	1,305,798
Issued on reinvestment of distributions	154,397	138,718
Redeemed	(889,432)	(723,889)
Number of redeemable units in circulation, end of year	5,094,311	5,313,953

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, interest and securities lending, 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 RSP BOND FUND
LETKO BROUSSEAU FONDS RER D'OBLIGATIONS
NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017 AND 2016

8. NET SECURITIES LENDING INCOME

During the year ended December 31, 2017, the Fund entered into a securities lending program with the Trustee. Securities lending transactions involve the temporary exchange of securities for collateral with a commitment to return the same securities to the Fund on a future date. In accordance with the terms of the program, the Fund receives collateral of at least 102% of the fair value of the securities on loan. The collateral consists primarily of debt securities with high credit ratings. The fair value of the securities loaned is determined in accordance with standard market practices and additional collateral is requested if necessary.

The table below presents the aggregate fair value of the securities on loan and collateral held under securities lending transactions as at December 31. The securities on loan continue to be included in the schedule of investment portfolio.

	2017 \$	2016 \$
Total fair value of securities on loan	6,973,802	-
Total collateral held	7,147,053	-

Securities lending income reported in the statements of comprehensive income is net of securities lending charges which the Fund's Trustee is entitled to receive as per the terms of the program. For the year ended December 31, securities lending income was as follows:

	2017 \$	2016 \$
Gross securities lending income	230	-
Securities lending charges	(115)	-
Net securities lending income	115	-
Securities lending charges as a % of the gross securities lending income	50%	-

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 unit trust and is taxed on its income received and not distributed to unitholders. The Fund distributes to unitholders the total income from dividends, interest and securities lending, net of expenses and its net realized taxable capital gains.

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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 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 fair value of debt securities included in investments, as well as interest and other receivables presented on the statements of financial position.

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	2017 % of net assets	2016 % of net assets
AAA	13.49	11.33
AA	30.31	26.84
A	41.77	42.74
BBB	8.93	10.14
BB	0.91	-

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

The credit risk associated with securities lending transactions is considered minimal given the nature and the value of the collateral held by the Fund in connection with these transactions.

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.

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11. 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 %	2017 Impact \$	2016 Impact \$
FTSE TMX Canada 91-day Treasury Bills	0.25	5,000	12,000
FTSE TMX Canada Universe Bond Index	1.00	468,000	474,000

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	2017 \$	2016 \$
Less than 1 year	10,401,300	2,358,618
1 to 5 years	32,531,103	37,555,779
5 to 10 years	3,846,412	7,667,541
10 years and more	6,635	7,110
Total	46,785,450	47,589,048

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 \$1,019,000 (2016: \$1,203,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

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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.

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

	Level 1	Level 2	Total
2017	\$	\$	\$
Bonds	34,784,674	12,000,776	46,785,450
Money market securities	1,955,765	-	1,955,765
	36,740,439	12,000,776	48,741,215
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

No investments were transferred within the levels between the years ended December 31, 2016 and 2017.

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.