



**LETKO
BROSSEAU**

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

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the statements of financial position of **LETKO BROUSSEAU BOND FUND / LETKO BROUSSEAU FONDS 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 BOND FUND / LETKO BROUSSEAU FONDS 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 BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS
 STATEMENTS OF FINANCIAL POSITION
 AS AT DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
Current assets		
Cash	37,049	34,621
Investments	11,900,932	11,415,930
Interest, dividends and other receivables	48,094	49,703
	11,986,075	11,500,254
Current liabilities		
Amounts payable on redemptions of redeemable units	-	10,000
Accrued expenses	14,053	12,788
	14,053	22,788
Net assets attributable to holders of redeemable units	11,972,022	11,477,466

Supplementary information

Number of redeemable units in circulation (note 5)	1,240,084	1,173,690
Net assets per unit attributable to holders of redeemable units (note 6)	\$ 9.6542	\$ 9.7790

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 BOND FUND
LETKO BROUSSEAU FONDS 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	11,477,466	12,876,632
Change in net assets attributable to holders of redeemable units	136,449	165,779
Redeemable unit transactions		
Proceeds from issuance	2,083,603	569,269
Reinvestment of distributions	268,292	325,870
Redemptions	(1,698,713)	(2,099,989)
	653,182	(1,204,850)
Distributions to holders of redeemable units (note 6)		
Net investment income	(295,075)	(305,409)
Net realized gain on sale of investments	-	(54,686)
	(295,075)	(360,095)
Net assets attributable to holders of redeemable units, end of year	11,972,022	11,477,466

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

LETKO BROUSSEAU BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	\$	\$
Investment income		
Interest income for distribution purposes	298,834	313,865
Dividend income	7,547	7,935
Net securities lending income (note 9)	36	-
Foreign exchange gain (loss) on cash	(184)	-
Net realized gain (loss) on sale of investments	(3,310)	54,687
Net changes in unrealized appreciation (depreciation) of investments	(150,868)	(194,620)
	152,055	181,867
Expenses		
Trustee fees (note 10)	6,017	2,928
Professional fees	9,420	13,160
Filing fees	169	-
	15,606	16,088
Change in net assets attributable to holders of redeemable units	136,449	165,779
Change in net assets per unit attributable to holders of redeemable units (note 3)	0.1087	0.1375

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

LETKO BROSSEAU BOND FUND
LETKO BROSSEAU FONDS 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	136,449	165,779
Adjustments or variations for :		
Foreign exchange (gain) loss on cash	184	-
Net realized (gain) loss on sale of investments	3,310	(54,687)
Net changes in unrealized (appreciation) depreciation of investments	150,868	194,620
Proceeds from sale or maturity of investments	7,357,684	5,755,168
Investments purchased	(7,997,048)	(4,280,714)
Interest, dividends and other receivables	1,609	14,552
Amounts payable on redemptions of redeemable units	(10,000)	(262,275)
Accrued expenses	1,265	(2,519)
	(355,679)	1,529,924
Cash flows from (used in) financing activities		
Proceeds from issuance of redeemable units	2,083,603	569,269
Amounts paid on redemptions of redeemable units	(1,698,713)	(2,099,989)
Distributions paid in cash to holders of redeemable units	(26,783)	(34,225)
	358,107	(1,564,945)
Change in cash	2,428	(35,021)
Cash, beginning of year	34,621	69,642
Cash, end of year	37,049	34,621

Supplementary information

Interest received	\$	301,965	\$	327,684
Dividends received, net of withholding taxes	\$	7,769	\$	9,093
Interest paid	\$	-	\$	425

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

LETKO BROUSSEAU BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS
SCHEDULE OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2017

	Quantity	Cost \$	Fair Value \$
Equities			
Telecommunication Services			
BCE			
Series AA, preferred, 3.610%	5,000	119,750	97,200
Series AJ, preferred, floating dividend	5,700	132,525	116,223
Total Equities		252,275	213,423
	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds			
Federal Government			
Canada Housing Trust			
Series 66, 1.450%, 2020-06-15	150,000	149,921	148,611
Provincial Governments and Crown Corporations			
CPPIB Capital			
1.400%, 2020-06-04	500,000	499,456	493,894
Financement-Québec			
2.400%, 2018-12-01	250,000	249,558	251,837
floating rate, 2019-05-29	375,000	375,000	377,387
2.450%, 2019-12-01	200,000	199,600	202,239
Hydro-Québec			
floating rate, 2019-12-01	460,000	461,656	462,688
Province of Alberta			
1.600%, 2018-06-15	325,000	322,170	325,468
1.250%, 2020-06-01	250,000	248,025	246,118
1.350%, 2021-09-01	100,000	99,659	97,440
1.600%, 2022-09-01	25,000	24,940	24,313
Province of Manitoba			
4.250%, 2018-03-05	200,000	200,865	201,093
5.500%, 2018-11-15	150,000	154,830	155,081
floating rate, 2020-05-15	100,000	100,352	100,744
1.600%, 2020-09-05	100,000	99,767	99,111
1.550%, 2021-09-05	770,000	754,812	755,467
2.550%, 2023-06-02	400,000	405,400	404,301
Province of New Brunswick			
4.450%, 2018-03-26	275,000	277,445	277,120
floating rate, 2019-08-01	50,000	50,000	50,175
stripped, 2019-09-26	25,000	24,347	24,159
Province of Newfoundland			
stripped, 2019-10-17	50,000	48,296	48,044
1.950%, 2022-06-02	600,000	598,389	591,607
Province of Nova Scotia			
floating rate, 2018-08-15	335,000	335,905	335,706
4.150%, 2019-11-25	420,000	448,697	438,002

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LETKO BROSSEAU BOND FUND
LETKO BROSSEAU FONDS 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 (continued)			
stripped, 2019-12-01	50,000	48,656	48,132
floating rate, 2020-06-15	50,000	50,000	50,237
Province of Ontario			
floating rate, 2018-12-03	225,000	225,090	225,833
4.200%, 2020-06-02	160,000	158,279	168,599
1.350%, 2022-03-08	875,000	871,721	846,675
3.150%, 2022-06-02	480,000	477,569	499,393
1.950%, 2023-01-27	50,000	49,706	49,307
2.600%, 2025-06-02	75,000	75,320	75,489
Province of Québec			
floating rate, 2018-12-19	275,000	274,945	276,108
floating rate, 2019-08-21	70,000	70,000	70,401
		8,280,455	8,272,168
Municipalities and Parapublic Institutions			
City of Toronto			
4.950%, 2018-06-27	85,000	84,745	86,444
4.500%, 2019-12-02	360,000	358,888	377,229
2.450%, 2025-02-06	50,000	49,196	49,381
City of Vancouver			
4.900%, 2019-12-02	365,000	364,547	385,503
Municipal Finance Authority of British Columbia			
1.750%, 2020-10-15	150,000	149,793	148,926
Regional Municipality of York			
5.000%, 2019-04-29	240,000	239,422	250,132
		1,246,591	1,297,615
Total Canadian Government Bonds		9,676,967	9,718,394
Corporate Bonds			
Alimentation Couche-Tard			
3.319%, 2019-11-01	40,000	40,000	40,751
Bank of Montreal			
2.120%, 2022-03-16	200,000	196,754	197,131
Bank of Nova Scotia			
2.130%, 2020-06-15	50,000	50,700	49,862
2.090%, 2020-09-09	200,000	200,300	198,993
Bell Canada			
2.000%, 2021-10-01	100,000	99,804	97,925
Capital Power Corporation			
5.276%, 2020-11-16	170,000	170,000	180,169
Cominar Real Estate Investment Trust			
4.230%, 2019-12-04	80,000	76,866	81,094
Enbridge			
floating rate, 2019-05-24	25,000	25,000	25,075

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SCHEDULE OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2017

	Par Value	Cost \$	Fair Value \$
Corporate Bonds (continued)			
EPCOR Utilities 5.800%, 2018-01-31	75,000	69,555	75,235
First Capital Realty 5.480%, 2019-07-30	105,000	104,604	110,109
Series M, 5.600%, 2020-04-30	115,000	115,359	122,881
Pembina Pipeline Corporation 4.890%, 2021-03-29	130,000	130,000	138,676
Royal Bank of Canada 1.920%, 2020-07-17	50,000	50,413	49,582
1.968%, 2022-03-02	375,000	369,291	367,433
Toronto-Dominion Bank 1.693%, 2020-04-02	50,000	50,195	49,436
Total Corporate Bonds		1,748,841	1,784,352
Total Bonds		11,425,808	11,502,746
Money Market Securities			
Canada Treasury Bills 2018-01-25	125,000	124,914	124,914
Ontario Treasury Bills 2018-02-28	60,000	59,849	59,849
Total Money Market Securities		184,763	184,763
Portfolio Transaction Costs Included in the Securities' Cost		(285)	
Total Investments		11,862,561	11,900,932

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

LETKO BROUSSEAU BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS
NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017 AND 2016

1. ESTABLISHMENT OF THE FUND

The Letko Brousseau Bond Fund / Letko Brousseau Fonds 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, 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.

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 13. 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.

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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 BOND FUND
LETKO BROUSSEAU FONDS 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	1,173,690	1,295,013
Number of redeemable units issued and redeemed during the year		
Issued for cash and other consideration	213,824	57,384
Issued on reinvestment of distributions	27,546	32,978
Redeemed	(174,976)	(211,685)
Number of redeemable units in circulation, end of year	1,240,084	1,173,690

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 12. The Fund is not subject to any particular external requirement for managing its capital.

LETKO BROUSSEAU BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS
NOTES TO FINANCIAL STATEMENTS
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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 \$
Redeemable units issued and redeemed		
Issued on reinvestment of distributions	-	4,952
Redeemed	-	(113,061)
	-	(108,109)
<hr/>		
2016	Manager \$	Other related parties \$
Redeemable units issued and redeemed		
Issued on reinvestment of distributions	2,017	6,749
Redeemed	(974,269)	-
	(972,252)	6,749

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	-	-
Other related parties	112,487	222,760
	112,487	222,760

LETKO BROUSSEAU BOND FUND
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NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017 AND 2016

9. 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	715,563	-
Total collateral held	732,273	-

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	72	-
Securities lending charges	(36)	-
Net securities lending income	36	-
Securities lending charges as a % of the gross securities lending income	50%	-

10. 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.

11. 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.

12. 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.

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NOTES TO FINANCIAL STATEMENTS
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12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

The Fund's maximum exposure to credit risk is the fair value of debt securities included in investments, as well as interest, dividends 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	9.83	2.63
AA	41.89	40.40
A	37.70	42.92
BBB	5.98	9.04
BB	0.68	-

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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 NOTES TO FINANCIAL STATEMENTS
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12. 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	1,000	1,000
FTSE TMX Canada Universe Bond Index	1.00	117,000	111,000

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	2,209,925	962,684
1 to 5 years	8,714,344	7,874,715
5 to 10 years	578,477	2,065,801
Total	11,502,746	10,903,200

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 \$263,000 (2016: \$261,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

The Fund's investments in equities are also 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.

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13. 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			
Equities	213,423	-	213,423
Bonds	8,420,779	3,081,967	11,502,746
Money market securities	184,763	-	184,763
	8,818,965	3,081,967	11,900,932
2016			
Equities	163,005	-	163,005
Bonds	7,565,636	3,337,564	10,903,200
Money market securities	349,725	-	349,725
	8,078,366	3,337,564	11,415,930

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.

14. 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.