



## **Ridgewood Canadian Bond Fund**

Interim Financial Report (Unaudited)  
For the six months ended June 30, 2017

# Ridgewood Canadian Bond Fund

## Interim Financial Report (Unaudited)

Message to Unitholders..... 2

Unaudited Interim Report Statement ..... 3

Management’s Responsibility for Financial Reporting ..... 4

Statements of Financial Position ..... 5

Statements of Comprehensive Income ..... 5

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units ..... 6

Statements of Cash Flows..... 6

Schedule of Investments ..... 7

Notes to the Financial Statements ..... 8-16

## Message to Unitholders

The first half of 2017 was modestly positive for bond investors. Returns across all sectors were in the plus column as investors were attracted to fixed income assets given the recent geopolitical volatility. An environment of stable inflation and modest growth has also been an attractive backdrop for fixed income investors as money flowed into investment grade and high yield asset classes. Corporate bonds are performing well in this environment as the additional yield over Government bonds makes them more attractive. In fact the corporate index was over 2 times the return of the Government bond index. Supply in the corporate space is below 2016 levels and demand is still strong which bodes well for outlook in the back half of 2017.

Long-term corporate bonds performed better than all other categories on both a relative and absolute basis. Short term government bonds were one of the worst performers in this period. The yield curve continues to steepen which will eventually push investors further out the of maturity spectrum. This will likely result in mid and long term bonds out performing on a relative basis.

The Bank of Canada has maintained a stable interest rate structure in the first half of 2017 but raised overnight rates by 0.25% to 0.75% in July. The U.S. central bank has raised rates 0.25% basis points already and is likely to add another 0.25% basis points by the end of the year.

The global growth backdrop is improving and it appears the deflation scare is behind us. We have extended the term to maturity in our portfolio to take advantage of the attractive yield pickup and demand for long duration assets. Corporate bonds are our preferred asset class within fixed income and we remain comfortable being fully invested at this time.

June 30, 2017

## **Ridgewood Canadian Bond Fund**

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Interim Financial Report 2017 (Unaudited)

### **UNAUDITED INTERIM REPORT STATEMENT**

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund in compliance with International Financial Reporting Standards.

# Ridgewood Canadian Bond Fund

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## Management's Responsibility for Financial Reporting

The interim financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this interim report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 4 of the financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.



John H. Simpson, CFA  
Managing Director  
Ridgewood Capital Asset Management Inc.



Paul W. Meyer, CFA  
Managing Director  
Ridgewood Capital Asset Management Inc.

August 11, 2017

## Ridgewood Canadian Bond Fund

### STATEMENTS OF FINANCIAL POSITION

As at June 30, 2017 (Unaudited) and December 31, 2016

	30-Jun-17	31-Dec-16
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 30-Jun-17 - \$84,148,203; 31-Dec-16 - \$73,680,181)	85,640,481	74,945,735
Short-term investments at fair value (Cost: 30-Jun-17 - \$169,553; 31-Dec-16 - \$5,588,046)	169,553	5,588,046
Cash	374,043	17,744
Accrued interest receivable	410,124	308,618
Prepaid fees	28,742	24,749
Subscriptions receivable	90,000	7,313
<b>Total Assets</b>	<b>86,712,943</b>	<b>80,892,205</b>
<b>Liabilities</b>		
Accrued expenses	183,008	132,593
Distributions Payable	178,142	-
Due to Brokers	-	2,081,499
Redemptions payable	353,676	23,601
<b>Total Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>714,826</b>	<b>2,237,693</b>
<b>Net Assets attributable to holders of redeemable units</b>	<b>85,998,117</b>	<b>78,654,512</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>7,125,681</b>	<b>6,587,678</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>12.0688</b>	<b>11.9396</b>

On behalf of the Manager,  
Ridgewood Capital Asset Management Inc.



Director

John H. Simpson, CFA



Director

Paul W. Meyer, CFA

### STATEMENTS OF COMPREHENSIVE INCOME

For the six month period ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	1,483,440	1,432,740
Net gain on foreign exchange	-	9,688
<b>Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss</b>		
Net realized gain on sale of investments	1,408,874	723,414
Net change in unrealized (depreciation) appreciation of investments	226,724	2,157,156
<b>Total income</b>	<b>3,119,038</b>	<b>4,322,998</b>
<b>Expenses</b>		
Management fees (Note 7)	336,998	311,581
HST expense	45,526	36,373
Administrative and other expenses	125,379	101,810
Custodian fees	30,394	30,394
Audit fees	4,380	7,939
Legal fees	12,463	9,090
Independent Review Committee fees	8,933	6,233
Insurance premium fees	-	4,084
<b>Total operating expenses</b>	<b>564,073</b>	<b>507,504</b>
<b>Operating profit</b>	<b>2,554,965</b>	<b>3,815,494</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,554,965</b>	<b>3,815,494</b>
Daily average number of units	7,910,737	7,529,835
<b>Increase in net assets attributable to holders of redeemable units per unit</b>	<b>0.3230</b>	<b>0.5067</b>

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

## Ridgewood Canadian Bond Fund

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six month period ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
	\$	\$
<b>Net Assets Attributable to Holders of Redeemable units at beginning of Year</b>	<b>78,654,512</b>	<b>67,754,650</b>
<b>Distributions to redeemable unitholders</b>		
From net investment income	(1,189,085)	(1,053,866)
<b>Redeemable Unit Transactions (Note 5)</b>		
Proceeds from units issued	29,369,257	45,390,825
Amount paid for units redeemed	(24,212,914)	(16,419,923)
Reinvestment of distributions	821,382	678,622
	<b>5,977,725</b>	<b>29,649,524</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,554,965</b>	<b>3,815,494</b>
<b>Net Assets Attributable to Holders of Redeemable units at end of period</b>	<b>85,998,117</b>	<b>100,165,802</b>

### STATEMENTS OF CASH FLOWS

For the six month period ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase in net assets attributable to holders of redeemable units	2,554,965	3,815,494
Adjustments for		
Interest income on short-term notes	(12,668)	(12,288)
Net realized gains on investments excluding foreign currency	(1,408,874)	(723,414)
Net change in unrealized appreciation (depreciation) of investments	(226,724)	(2,157,156)
Purchase of investments	(86,329,527)	(129,724,128)
Proceeds from sale of investments	82,701,540	99,028,240
(Decrease) in accrued interest receivable	(101,506)	(153,467)
(Decrease) in prepaid fees	(3,993)	(7,712)
Increase in accrued expenses	50,415	24,888
Increase (Decrease) in investment purchases payable	(2,081,499)	704,800
<b>Net cash provided by (used in) in operating activities</b>	<b>(4,857,871)</b>	<b>(29,204,743)</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	(82,687)	(67,869)
Payable for units redeemed	330,075	626,280
Distributions paid to holders of redeemable units, net of reinvested distributions	(189,561)	(191,811)
Proceeds from units issued	29,369,257	45,390,825
Amount paid for units redeemed	(24,212,914)	(16,419,923)
<b>Net cash provided by (used in) financing activities</b>	<b>5,214,170</b>	<b>29,337,502</b>
<b>Increase in cash</b>	<b>356,299</b>	<b>132,759</b>
<b>Cash, beginning of period</b>	<b>17,744</b>	<b>33,789</b>
<b>Cash, end of period</b>	<b>374,043</b>	<b>166,548</b>
Interest received	1,381,934	1,279,273

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

## Ridgewood Canadian Bond Fund

### Schedule of Investments

As at June 30, 2017

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
170000 Canadian Treasury Bill, 0.629%, November 16, 2017	169,553	169,553	0.20%
<b>Investments</b>			
<b>Federal Bonds</b>			
1080000 Canada Housing Trust No 1, 1.250%, June 15, 2021	1,086,197	1,064,269	
1000000 Canada Housing Trust No 1, 1.150%, December 15, 2021	992,720	976,385	
3000000 Canadian Government Bond, 0.750%, March 01, 2021	2,962,949	2,942,363	
2000000 Canadian Government Bond, 0.750%, September 01, 2021	1,973,580	1,952,843	
2610000 Canadian Government Bond, 2.750%, December 1, 2048	2,853,600	2,979,781	
<b>Total Federal Bonds</b>	<b>9,869,046</b>	<b>9,915,641</b>	<b>11.54%</b>
<b>Provincial Bonds</b>			
3899000 First Nations Finance Authority, 3.400%, June 26, 2024	4,122,679	4,103,689	
250000 Province of Alberta, 3.300%, December 1, 2046	274,718	260,850	
2000000 Province of British Columbia, 3.300%, December 18, 2023	1,948,640	2,145,968	
2000000 Province of British Columbia, 3.200%, June 18, 2044	1,962,247	2,109,388	
1000000 Province of British Columbia, 2.800%, June 18, 2048	903,000	982,202	
2000000 Province of Manitoba, 1.550%, September 05, 2021	1,995,800	1,981,150	
2000000 Province of New Brunswick, 2.850%, June 02, 2023	1,988,320	2,081,260	
1250000 Province of Newfoundland and Labrador, 3.300%, October 17, 2046	1,138,788	1,257,408	
1000000 Province of Ontario, 1.950%, January 27, 2023	995,590	997,440	
1000000 Province of Ontario, 2.600%, June 02, 2025	1,015,760	1,021,724	
3250000 Province of Ontario, 2.900%, December 02, 2046	3,024,887	3,211,976	
1000000 Province of Quebec, 2.500%, September 1, 2026	1,038,897	1,009,847	
2000000 Province of Quebec, 3.500%, December 1, 2045	2,270,360	2,210,579	
1000000 Province of Saskatchewan, 2.750%, December 02, 2046	876,500	946,181	
<b>Total Provincial Bonds</b>	<b>23,566,186</b>	<b>24,319,662</b>	<b>28.28%</b>
<b>Municipal Bonds</b>			
City of Montreal, 3.000%, September 01, 2027	1,506,735	1,539,473	1.79%
<b>Corporate Bonds</b>			
1000000 407 International Inc., 3.430%, June 01, 2033	999,170	1,041,451	
500000 AltaGas Ltd., 5.160%, January 13, 2044	535,335	549,167	
1000000 AT&T Inc., 4.850%, May 25, 2047	993,590	1,025,921	
1000000 Bank of Montreal, 3.340%, December 08, 2025	999,630	1,031,847	
1000000 Bank of Montreal, 3.320%, June 01, 2026	999,860	1,031,243	
1000000 Bank of Montreal, 2.570%, June 01, 2027	1,000,000	993,141	
500000 Bank of Nova Scotia, 1.900%, December 2, 2021	499,860	495,877	
1000000 Brookfield Infrastructure Finance ULC, 3.315%, February 22, 2024	1,011,100	1,005,827	
1000000 Brookfield Renewable Partners ULC, 3.630%, January 15, 2027	999,500	1,010,122	
1000000 Cameco Corp., 3.750%, November 14, 2022	1,015,100	1,006,615	
1000000 Cameco Corp., 4.190%, June 24, 2024	1,026,730	1,015,826	
1000000 Cameco Corp., 5.090%, November 14, 2042	935,000	925,048	
1000000 Canadian Imperial Bank of Commerce, 3.000%, October 28, 2024	999,770	1,018,361	
1000000 Chartwell Retirement Residences, 3.786%, December 11, 2023	1,000,000	995,964	
1000000 Chip Mortgage Trust, 2.330%, April 29, 2020	988,980	985,965	
1216000 Citigroup Inc, 4.090%, June 09, 2025	1,245,099	1,262,804	
2000000 Cominar Real Estate Investment Trust, 4.164%, June 01, 2022	2,064,470	1,963,876	
1400000 CT Real Estate Investment Trust, 3.469%, June 16, 2027	1,400,000	1,390,961	
1000000 Empire Life Insurance Co., 3.383%, December 16, 2026	1,012,350	1,008,706	
1000000 Enbridge Inc., 4.570%, March 11, 2044	1,039,930	1,024,283	
1135000 Fairfax Financial Holdings Ltd., 4.500%, March 22, 2023	1,187,057	1,186,687	
1000000 Fairfax Financial Holdings Ltd., 4.950%, March 03, 2025	1,066,800	1,065,991	
1000000 Greater Toronto Airports Authority, 1.510%, February 16, 2021	999,900	992,537	
1000000 HSBC Holdings PLC, 3.196%, December 5, 2023	1,000,000	1,016,753	
1000000 IGM Financial Inc., 3.440%, January 26, 2027	999,330	1,019,889	
1000000 Laurentian Bank of Canada, 4.250%, June 22, 2027	1,000,000	996,684	
1000000 Manufacturers Life Insurance Co., 2.640%, January 15, 2025	999,970	1,016,107	
1000000 Medavie Inc., 6.000%, May 21, 2024	1,028,000	1,018,000	
1000000 Morgan Stanley, 3.000%, February 07, 2024	999,810	1,007,038	
3185081 OMERS Realty Corp., 3.666%, December 05, 2022	3,185,080	3,182,501	
500000 Pembina Pipeline Corp., 4.740%, January 21, 2047	495,025	511,549	
1000000 Reliance LP, 3.813%, September 15, 2020	1,000,030	1,025,335	
1000000 Royal Bank of Canada, 2.000%, March 21, 2022	999,850	993,501	
1000000 Royal Bank of Canada, 2.333%, December 5, 2023	1,000,000	999,559	
1000000 Royal Bank of Canada, 3.040%, July 17, 2024	999,820	1,017,912	
1000000 Royal Bank of Canada, 3.310%, January 20, 2026	999,590	1,029,266	
1000000 Saputo Inc, 2.827%, November 21, 2023	1,000,000	1,012,833	
1000000 Shaw Communications Inc., 6.750%, November 09, 2039	1,231,900	1,294,385	
2000000 Teranet Holdings LP, 5.754%, December 17, 2040	2,158,400	2,219,083	
1400000 TransAlta Corp., 7.300%, October 22, 2029	1,382,000	1,476,794	
1000000 Wells Fargo & Co., 2.222%, March 15, 2021	1,000,000	1,000,296	
<b>Total Corporate Bonds</b>	<b>45,498,036</b>	<b>45,866,705</b>	<b>53.32%</b>
<b>Mortgage Backed Securities</b>			
4000000 Merrill Lynch Financial Assets Inc., 5.143%, January 12, 2040	3,718,200	4,000,000	4.65%
<b>Total Bonds and Mortgage Backed Securities</b>	<b>84,148,203</b>	<b>85,640,481</b>	<b>99.58%</b>
<b>Total Investments</b>	<b>84,317,756</b>	<b>85,810,034</b>	<b>99.78%</b>
<b>Cash and other assets, net of liabilities</b>	<b>188,083</b>	<b>188,083</b>	<b>0.22%</b>
<b>Net assets</b>		<b>85,998,117</b>	<b>100.00%</b>

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



# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 1. Establishment of the Fund

Ridgewood Canadian Bond Fund (the "Fund") is an open-end trust existing under the laws of the Province of Ontario and governed by an amended and restated Master Declaration of Trust dated September 1, 2008, executed by Ridgewood Capital Asset Management Inc. ("Ridgewood" or the "Manager") in its separate capacities as manager and trustee of the Fund, and a Fund Declaration dated February 18, 1999, as amended on September 1, 2008 and further amended on March 15, 2010. The Fund began operations on February 19, 1999. The Fund's principal office is 55 University Avenue, Suite 1020, Toronto, Ontario M5J 2H7. The fiscal year end of the Fund is December 31.

Ridgewood is also the investment manager and distributor of units of the Fund. RBC Investor & Treasury Services is the custodian and registrar of the Fund, and, as such, performs certain valuation and other services for the Fund. The financial statements are authorized for issuance by Ridgewood Capital Asset Management Inc. on August 11, 2017.

### 2. Investment objective of the Fund

The investment objective of the Fund is to achieve a high level of income, consistent with the preservation of capital and liquidity, from a portfolio of fixed income securities. The Fund is invested primarily in liquid Canadian federal and provincial government securities and those of Canadian corporations rated "BBB" or better by Canadian Bond Rating Service Limited or Dominion Bond Rating Service Limited or other recognized rating agencies. The Fund may also invest in comparable fixed income securities of foreign issuers. Assets of the Fund may also be held in interest-bearing accounts at a bank or trust company, including the custodian, invested in guaranteed investment certificates or invested in Canadian short-term debt obligations.

### 3. Basis of Presentation

These annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") 34: Interim Financial Reporting, as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

### 4. Summary of significant accounting policies

#### *Financial instruments*

The Fund classifies its investments as financial assets at fair value through profit or loss ("FVTPL"). Financial Assets have two sub-categories: those designated at FVTPL at inception, and financial assets held for trading. Financial assets designated at FVTPL at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading. The Fund does not classify any investments as held for trading. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, on the accrual basis based on the bond coupon rate. The Fund's accounting policies for measuring the fair value of its investments are identical to those used in measuring its net asset value ("NAV") for transactions with unitholders.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts.

# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 4. Summary of significant accounting policies (continued)

#### *Amendments to IAS1 disclosure initiative*

The Fund has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the Fund's financial position and financial performance.

Regarding the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or the financial position of the Fund.

#### *Capital Disclosures*

The Fund's objectives, policies and processes for managing capital are described in Note 2. Information on the Funds' capital structure is described in Note 5 and 8. The Fund does not have any externally imposed capital requirements.

#### *Valuation of Investments*

The Fund's financial instruments may include short-term investments and bonds (collectively referred to as investments), cash, subscriptions receivable, due from broker, due to broker, redemptions payable, distributions payable and accrued expenses. Investments are valued at fair value using the policies described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund policy is to recognize transfers in and out of the fair value hierarchy levels as at the end of the reporting period for transfers between Levels 1 and 2 and as at the date of the transfer for transfers in and out of Level 3.

Investments are recorded in the financial statements at their fair value which is determined as follows:

Bonds are valued at the mean of bid/ask prices provided by recognized investment dealers. If the underlying security is less than the conversion price; or if the underlying security is greater than the conversion price, at the market value of the underlying security multiplied by the number of shares to be received. Mutual fund units held are priced using the NAV per unit which is fair value, as of the valuation date for the particular fund for both reporting Net Assets attributable to holders of redeemable units and daily NAV.

Short-term notes and treasury bills are stated at amortized cost, which approximates fair market value, are included in the Schedule of Investments.

Cash is comprised of cash on deposit.

Amounts due to brokers are payables for securities purchased that have been contracted for but not yet delivered on the reporting date.

#### *Investment Transactions and Income Recognition*

Investment transactions are recorded on trade date. Interest income from investments in bonds and short-term investments are accrued daily. Realized gains and losses from investment transactions are calculated on a weighted average cost basis.

# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 4. Summary of significant accounting policies (continued)

Financial Instruments – Disclosures (continued)

#### *Income Recognition*

Interest income for distribution purposes resulting from investments in bonds is recognized on an accrual basis based on the bond coupon rate.

Financial Instruments – Disclosures

The Fund classifies fair value measurements within a hierarchy that prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, accrued liabilities and the Fund's obligation for net assets attributable to holders of redeemable units approximates their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

#### a) Bonds and short-term investments

Bonds include primarily government and corporate bonds. Short-term notes and treasury bills are stated at amortized cost, plus accrued interest, which approximates fair market value. The inputs that are significant to valuation are generally observable and therefore the Fund's bonds and short-term investments have been classified as Level 2.

Please see Note 11 for these disclosures.

#### *Foreign currency*

#### a) Functional and presentation currency

Items included in the annual financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the "functional currency"). The annual financial statements of the Fund are presented in CAD which is the Fund's functional currency.

#### b) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary items and non-monetary assets and liabilities that are denominated in foreign currencies are recognized in profit or loss in the period in which they arise. Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognized together with other changes in fair value.

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 4. Summary of significant accounting policies (continued)

#### *Critical accounting estimates and judgments*

The preparation of financial statements requires management to use judgment 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 Fund has made in preparing the financial statements:

#### a) Fair value measurement of derivatives and securities not quoted in an active market

The Fund holds financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 11 – Financial Instruments - Disclosure for further information about the fair value measurement of the Fund's financial instruments.

#### b) Classification and measurement of investments designated as FVTPL

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the FVTPL designation for the financial assets under IAS39, Financial Instruments – Recognition and Measurement (“IAS39”). The most significant judgment made include the determination that certain investments are held-for-trading.

### 5. Redeemable Units

Each unitholder in the Fund acquires redeemable units, which represent an undivided interest in the net assets of the Fund. All redeemable units are of the same class with equal rights and privileges. Each redeemable unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Fund. Fractional units are not entitled to voting privileges. Each redeemable unit is redeemable at the option of the unitholder in accordance with the Trust Agreement and the number of redeemable units which may be issued is unlimited. The units of the Fund are fully paid when issued and are generally not transferable.

Following are the unit transactions during the periods from January 1 to June 30, 2017 and January 1 to December 31, 2016:

	2017	2016
Units outstanding, beginning of period	6,587,678	5,675,078
Units issued for cash	2,458,152	5,459,035
Units redeemed	(1,988,218)	(4,667,362)
Reinvestment of distributions	68,069	120,927
Units outstanding, end of period	7,125,681	6,587,678

# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 6. Related party transactions

The Fund's investment activities are managed by Ridgewood Capital Asset Management Inc.

#### *Management fees*

Under the terms of the Master Investment Agreement dated September 1, 2008, the Fund appointed the Manager to provide management services. The Manager receives a fee based on the NAV of the Fund's units, accrued daily and payable monthly out of the assets of the Fund. The maximum management fee is equal to 1.00% (excluding HST) of the net asset value of the Fund. Services received under the Declaration of Trust include managing or arranging for the management of the Fund's investment portfolio and providing or arranging for all required administrative services to the Fund. Total Management fees for the six month period ended June 30, 2017 amounted to \$336,998 (June 30, 2016 - \$311,582).

#### *Independent Review Committee fees*

The total remuneration paid to members of the Independent Review Committee during the six month period ended June 30, 2017 was \$8,933 (June 30, 2016 - \$6,233).

### 7. Management fees and expenses

Ridgewood is entitled to an annual management fee payable out of the assets of the Fund. The maximum management fee is equal to 1.00% (excluding HST) of the weighted average net asset value of the Fund less ordinary expenses of the Fund (the "Maximum Ordinary Expenses"). The Maximum Ordinary Expenses acts as a cap on the management fee and ordinary expenses of the Fund.

Ordinary expenses are paid out of the assets of the Fund and include all normal day-to-day operating expenses of the Fund, including custodian, legal, accounting, audit and regulatory filing fees. Ordinary expenses do not include commissions, brokerage fees and other fees and disbursements directly relating to trading transactions, any taxes payable by the Fund, any interest expense and any expenses incurred in respect of matters not in the normal course of the Fund's day-to-day activities, all of which are the responsibility of the Fund. If the total ordinary expenses are greater than the Maximum Ordinary Expenses, Ridgewood will reimburse the Fund the amount of such excess.

### 8. Distributions

Net income and net realized capital gains of the Fund may be declared payable to unitholders of the Fund from time to time at the discretion of Ridgewood, provided that in each year sufficient net income and net realized capital gains will be made payable to unitholders so that the Fund will not be liable for income tax thereon, except to the extent that any tax payable on net realized capital gains retained by the Fund would be immediately refundable to it.

Net income and net realized capital gains payable to unitholders of the Fund will be automatically reinvested in additional units of the Fund as of the valuation date of payment unless the unitholder otherwise requests in writing.

### 9. Income taxes

The Fund qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The Fund uses the "capital gains refund mechanism" which allows a mutual fund trust to retain some capital gains without paying any tax thereon. As a result, the Fund may not distribute all its net capital gains. The net income and net capital gains of the Fund that would otherwise be taxable in the Fund are either paid or payable to unitholders in each calendar year. Accordingly, no income tax is paid or payable by the Fund. Such income is taxable in the hands of the unitholders.

As at December 31, 2016, capital losses of \$3,438,044 (2015 - \$5,085,607) are available for utilization against realized gains on sales of investments in future years. The capital losses can be carried forward indefinitely. The Fund has no non-capital losses.

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 10. Financial instruments and risk management

The Fund's financial instruments consist of bonds, short-term investments, and cash. As a result, the Fund is primarily exposed to interest rate risk and credit risk.

These risks and related risk management practices employed by the Fund are discussed below.

#### *Interest Rate Risk*

The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table summarizes the Fund's exposure to interest rate risks, categorized by the earlier of contractual re-pricing or maturity dates.

As at June 30, 2017								
	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 3 years	3-5 years	More than 5 years	Non Interest bearing	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Interest Rate Exposure	374,043	-	169,553	985,965	15,388,434	69,266,082	-	86,184,077

As at December 31, 2016								
	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 3 years	3-5 years	More than 5 years	Non Interest bearing	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Interest Rate Exposure	17,744	-	5,588,046	-	10,600,673	64,345,062	-	80,551,525

At June 30, 2017, should interest rates have decreased by 100 basis points with all other variables remaining constant, the increase in net assets attributable to holders of redeemable units for the year would amount to approximately \$6.6 million (December 31, 2016 - \$6.4 million), arising substantially from the increase in market values of debt securities, with a small portion affecting interest rate futures. Conversely, if interest rates had risen by 100 basis points, the decrease in net assets attributable to holders of redeemable units would amount to approximately \$6.6 million (December 31, 2016 - \$6.4 million).

#### *Credit Risk*

Financial instruments that potentially subject the Fund to a concentration of a credit risk consist primarily of cash and investments. The Fund limits its exposure to credit loss by placing its cash and short-term investments with high quality government and financial institutions. To maximize the credit quality of its investments, the Fund's managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information.

The Fund's main credit risk concentration is spread between AAA/aaa and BBB/Baa rated securities.

The Fund invests in financial assets, which have an investment grade as rated by a well-known rating agency Dominion Bond Rating Service Limited and Canadian Bond Rating Service Limited.

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 10. Financial instruments and risk management (continued)

#### Credit Risk (continued)

##### Portfolio by rating category

Rating	June 30, 2017	
	As a % of net assets attributable to holders of redeemable units	
AAA/Aaa	18.96%	
AA/Aa	12.68%	
A/A	29.71%	
BBB/Baa	38.43%	
Total	99.78%	

##### Portfolio by rating category

Rating	December 31, 2016	
	As a % of net assets attributable to holders of redeemable units	
AAA/Aaa	32.35%	
AA/Aa	12.72%	
A/A	27.33%	
BBB/Baa	28.69%	
Unrated	1.30%	
Total	102.39%	

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

#### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's transactions and holdings are all in Canadian dollars, so there is no currency risk.

#### Liquidity Risk

Liquidity risk is the risk that a Fund will encounter difficulty in meeting obligations associated with its daily cash redemption of units. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and which can be readily disposed of and by retaining sufficient cash positions.

The Fund's short-term investments of approximately \$0.2 million (December 31, 2016 - \$5.6 million) are invested in Canadian Government treasury bills with less than 120 days to maturity, so redemption requests can be readily facilitated. The Fund's accrued liabilities are generally due and paid within three months.

#### June 30, 2017

Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 353,676	\$ 353,676
Accrued expenses	-	183,008	183,008
Distributions payable	-	178,142	178,142
Net Assets attributable to holders of redeemable units	85,998,117	-	85,998,117
<b>Total Liabilities</b>	<b>\$ 85,998,117</b>	<b>\$ 714,826</b>	<b>\$ 86,712,943</b>

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 10. Financial instruments and risk management (continued)

#### Liquidity Risk (continued)

December 31, 2016			
Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 23,601	\$ 23,601
Due to brokers	2,081,499		2,081,499
Accrued expenses	-	132,593	132,593
Net Assets attributable to holders of redeemable units	78,654,512	-	78,654,512
<b>Total Liabilities</b>	<b>\$ 80,736,011</b>	<b>\$ 156,194</b>	<b>\$ 80,892,205</b>

#### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units:

Market segments	June 30, 2017	December 31, 2016
Canadian Short Term Investments	0.20%	7.10%
Federal Bonds	11.54%	17.50%
Provincial Bonds	28.28%	31.59%
Municipal Bonds	1.79%	0.00%
Corporate Bonds	53.32%	34.48%
Mortgage Backed Securities	4.65%	11.72%
<b>Total</b>	<b>99.78%</b>	<b>102.39%</b>

### 11. Financial Instruments – Disclosures

#### Fair Value Disclosure

The Fund's assets recorded at fair value have been categorized based upon the fair value hierarchy described in Note 4. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

	Financial assets at fair value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
<b>Cash</b>	\$ 374,043	\$ -	\$ -	\$ 374,043
<b>Bonds</b>	-	81,640,481	-	81,640,481
<b>Mortgage Backed Securities (MBS)</b>	-	4,000,000	-	4,000,000
<b>Short Term Investments</b>	-	169,553	-	169,553
	<b>374,043</b>	<b>85,810,034</b>	<b>-</b>	<b>86,184,077</b>



# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

June 30, 2017 (unaudited)

### 11. Financial Instruments – Disclosures (continued)

*Fair Value Disclosure (continued)*

	Financial assets at fair value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	17,744	-	-	17,744
Bonds	-	65,726,607	-	65,726,607
Mortgage Backed Securities (MBS)	-	9,219,128	-	9,219,128
Short Term Investments	-	5,588,046	-	5,588,046
	17,744	80,533,781	-	80,551,525

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the six month period ended June 30, 2017 or year ended December 31, 2016.

In addition, there were no investments or transactions classified in Level 3 for the six month period ended June 30, 2017 or year ended December 31, 2016.

### 12. Financial instruments by category

The following tables present the carrying amounts of the Fund's financial instruments by category:

#### Financial instruments by category as of June 30, 2017

Assets	HFT	Financial assets at FVTPL	
		Designated at inception	Total \$
Non-derivative financial assets	-	85,640,481	85,640,481
Total	-	85,640,481	85,640,481

#### Financial instruments by category as of December 31, 2016

Assets	HFT	Financial assets at FVTPL	
		Designated at inception	Total \$
Non-derivative financial assets	-	74,945,735	74,945,735
Total	-	74,945,735	74,945,735

The Funds financial instruments as at June 30, 2017 and December 31, 2016 are designated as FVTPL.

The Fund's net gains (losses) on financial instruments for the six month period ended June 30, 2017 or year ended December 31, 2016 were all from financial instruments designated as FVTPL.

### 13. Future accounting policies

*Accounting standards issues and amendments not yet adopted*

Below are accounting standards issued or amended but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have significant impact to the Fund's financial statements.

The final version of IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39. IFRS 9 introduces a model for classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Ridgewood Capital Group of Funds is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

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