



## **Ridgewood Canadian Bond Fund**

Annual Report 2017

# Ridgewood Canadian Bond Fund

## Annual Report 2017

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## MESSAGE TO UNITHOLDERS 2017

The bond market experienced a modest overall gain of 1.24% in the first quarter as rates declined modestly. Corporate bonds outperformed the overall index by 59 basis points as risk assets attracted investors. The stock market was also a beneficiary as the S&P/TSX returned 2.41%. The positive market tone was aided by passive central banks which stayed on the sidelines as growth and inflation remained stable. The U.S. and the European central bank were still in quantitative easing mode as they continue to buy Government and corporate bonds in the open market. Commodities remained stable although inflation has approached the Bank of Canada's target of 2% which the market appeared to ignore for the most part.

In the second quarter stocks and bonds diverged. The bond market rallied again, returning 1.11% while equities retreated 1.64%. Although economic growth was rising, inflation moderated to 1.3% by the end of June. The result was a modest risk off trade where Government bonds outperformed corporate bonds and equities. The U.S. central bank raised rates twice for a total of 50 basis points as growth and employment continued to accelerate. The Bank of Canada remained on hold.

During the third quarter, interest rates began to rise and the Bank of Canada raised rates twice for a total of 50 basis points. The bond market was negatively impacted, losing 1.84%, while the S&P/TSX rose 3.68%. South of the border, the central bank took the summer off and kept rates steady 1-1.25% as a strong U.S. dollar kept inflation at bay. The stock market took that as a positive sign and money flowed into equities, providing a 4.48% return to investors in the S&P 500.

The bond market bounced back strongly in the fourth quarter. Investors were attracted to the higher yields with the bond index returning 2.02%, making it the strongest quarter of the year. While Canada stayed on hold, the U.S. overnight rates moved up 25 basis points to a 1.25-1.50% range. The stock market was in full rally mode as the economic back drop continued to improve, while inflation remained contained. For the year, the Canadian bond index returned +2.52%, while the TSX gained 9.1%. Infrastructure bonds were the top performer at +6.96%, followed by energy bonds at +5.00%. The weakest sector in the bond market was Canadian government bonds, rising only 0.12%. Although modest interest rate hikes are forecasted for 2018, we believe inflation will be subdued and corporate bonds will provide a higher level of income than Government bonds.

# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

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## **Management Report on Fund Performance**

This Management Report on Fund Performance has been prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure) and contains the financial highlights of Ridgewood Canadian Bond Fund (the "Fund") for the year ended December 31, 2017. The annual financial statements of the Fund are also attached behind this report.

Copies of the Fund's quarterly portfolio disclosure may be obtained by calling-1-888-789-8957 toll free or by writing to the Fund at Investor Relations, 55 University Avenue, Suite 1020, Toronto, Ontario, M5J 2H7 or by visiting our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca).

## **Investment Objectives and Strategies**

The Fund seeks to achieve a high level of income consistent with the preservation of capital and liquidity, from a portfolio of fixed income securities. The Fund invests primarily in liquid Canadian federal and provincial government securities and those of Canadian corporations rated "BBB" or better by the Dominion Bond Rating Service Limited or other recognized rating agencies. The Fund may also invest in comparable fixed income securities of foreign issuers.

The portfolio manager uses the following investment strategies to try to achieve the Fund's objective:

- Managing the portfolio to take advantage of changing levels of interest rates and to capitalize on yield disparities between various issuers of debt securities; and
- Choosing many different investment terms based on the interest rate outlook.

The Fund may invest in foreign securities from time to time. The amount of such foreign investments will vary but is not typically expected to exceed 20 percent of the net assets of the Fund at the time that such foreign securities are purchased.

## **Risk**

The Fund invests primarily in liquid Canadian federal and provincial government securities, and those of Canadian corporations rated investment grade or better by the Dominion Bond Rating Service Limited or other recognized rating agencies. The Fund may also invest in comparable fixed income securities of foreign issuers. Investors should be aware that the primary risk associated with the Fund is interest rate risk. The Bank of Canada has an easing bias as inflation is low and growth is slowing down. Fixed income markets should benefit in this environment as rates will likely stay low for the foreseeable future. However, in a rising interest rate environment, bond prices will move down and the income generated by bonds may not be greater than the decrease in the price.

## **Summary of Investment Portfolio**

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca).

### **Asset Mix**

December 31, 2017

	% of Net Asset Value		% of Net Asset Value
Corporate Bonds	42.0	Mortgage Backed Securities	24.2
Provincial Bonds	19.6	Federal Bonds	11.5
Municipal Bonds	1.9	Cash & Short-Term Investments	0.6

# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

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## Top 25 Holdings

	% of Total Net Asset Value
1. Canada Government Bond, 2.75%, 2048/12/01	9.1%
2. First Nations Finance Authority, 3.40%, 2024/06/26	5.0%
3. Omers Realty Corp., 3.666%, 2022/12/05	3.9%
4. REALT 2015-1 B, 3.450%, 2026/05/12	3.8%
5. Province of British Columbia, 2.80%, 2048/06/18	3.6%
6. REALT 2015-1 B, 3.451%, 2025/05/12	3.4%
7. Teranet Holdings, 5.754%, 2040/12/17	2.6%
8. Merrill Lynch Financial Assets Inc., 5.143%, 2040/01/12	2.5%
9. Institutional Mortgage Securities Canada Inc. 2012-2 B, 4.192%, 2022/07/12	2.5%
10. Province of Manitoba, 1.55%, 2021/09/05	2.4%
11. Institutional Mortgage Securities Canada Inc. 2014-5 C, 4.186%, 2024/05/12	2.4%
12. Institutional Mortgage Securities Canada Inc. 2015-6 C, 3.1%, 2025/03/12	2.3%
13. Cameco, 5.09%, 2042/11/14	2.2%
14. Institutional Mortgage Securities Canada Inc. 2015-6 D, 3.828%, 2025/03/12	2.2%
15. REALT 2015-1 D, 3.6596%, 2025/07/12	2.2%
16. Canada Housing Trust, 1.15%, 2021/12/15	2.0%
17. REALT 2017 D1, 3.932%, 2027/07/12	1.9%
18. Transalta Corp., 7.30%, 2029/10/22	1.9%
19. City of Montreal, 3.0%, 2027/09/01	1.9%
20. MCAP 5.0%, 2022/12/14	1.8%
21. Province of Manitoba 2.85%, 2046/09/05	1.8%
22. CT REIT, 3.469%, 2027/06/16	1.7%
23. Granite REIT, 3.873, 2023/11/30	1.7%
24. Province of Newfoundland, 3.30%, 2046/10/17	1.5%
25. Citigroup Inc., 4.09%, 2025/06/09	1.5%
<b>Total</b>	<b>67.9%</b>

## Results of Operations

For the year ended December 31, 2017, the net asset value of the Fund was \$11.97 per unit compared to \$11.94 per unit at December 31, 2016.

Net income and net capital gains of the Fund may be distributed to unitholders of the Fund from time to time at the discretion of Ridgewood. Sufficient distributions will be made each year so the Fund will not be liable for income tax. Distributions totaling \$0.275 per unit were made to unitholders during the year.

For the year ended December 31, 2017, the Fund had an annual compound return of 2.58% net of fees of 1.12% (including HST) while the FTSE/TMX Universe Bond Index had a return of 2.51%. In 2017 corporate bonds returned 3.38%, beating the overall bond index. Corporate BBB, and more specifically Energy bonds, outperformed returning 3.99% and 4.00% respectively. The portfolio was overweight in these sectors and benefited from this exposure.

# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

Information for the year ended December 31 is derived from the Fund's audited financial statements, with the exception of 2013 information, which was re-stated in accordance with IFRS requirements. For December 31, 2017, December 31, 2016 and 2015, the Net Assets included in the Net Assets per Unit table is from the Fund's audited financial statements and are calculated using closing prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices. All other calculations for the purposes of the MRFP are made using Net Asset Value.

	Years ended December 31					
	2017	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$	\$
<b>The Fund's net assets per unit</b>						
Net assets value, beginning of year <sup>(1)</sup>	11.94	11.94	11.83	10.99	11.25	10.77
<b>Increase (decrease) from operations</b>						
Total revenue	0.38	0.39	0.40	0.42	0.43	0.45
Total expenses (excluding distributions)	(0.14)	(0.14)	(0.14)	(0.13)	(0.13)	(0.12)
Realized gain (loss) for the year	0.23	0.20	0.15	0.29	(0.03)	0.46
Unrealized gain (loss) for the year	(0.11)	(0.12)	(0.12)	0.51	(0.21)	0.06
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.36</b>	<b>0.33</b>	<b>0.29</b>	<b>1.09</b>	<b>0.06</b>	<b>0.85</b>
<b>Distributions to unitholders</b>						
From net investment income	(0.28)	(0.26)	(0.28)	(0.29)	(0.31)	(0.32)
From return of capital	-	-	-	-	-	(0.03)
From capital gains	-	-	-	-	-	-
<b>Total distributions <sup>(3)</sup></b>	<b>(0.28)</b>	<b>(0.26)</b>	<b>(0.28)</b>	<b>(0.29)</b>	<b>(0.31)</b>	<b>(0.35)</b>
<b>Net assets value, end of year (1)</b>	<b>11.97</b>	<b>11.94</b>	<b>11.94</b>	<b>11.83</b>	<b>10.99</b>	<b>11.25</b>

(1) This information is derived from the Fund's audited financial statements as at December 31 of the year, with the exception of 2013 information, which was re-stated in accordance with new IFRS requirements. For all prior years the financial statements of the Fund were prepared in accordance with Canadian GAAP applicable to public enterprises. Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

(2) Total increase from operations consists of interest revenue, realized and unrealized gains (losses), less expenses, and is calculated based on the weighted average number of units outstanding during the year (period). The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year (period).

(3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

	2017	2016	2015	2014	2013	2012
<b>Ratios/supplemental data</b>						
Net Asset Value, end of year (\$millions)(1)	\$ 81.51	\$ 78.70	\$ 67.80	\$ 72.80	\$ 46.30	\$ 107.26
Number of units outstanding <sup>(1)</sup>	6,809,631	6,587,678	5,675,078	6,158,374	4,211,098	9,531,017
Management expense ratio (including HST) <sup>(2)</sup>	1.12%	1.13%	1.12%	1.16%	1.14%	1.10%
Management expense ratio including expenses absorbed by the Manager	1.12%	1.13%	1.12%	1.16%	1.14%	1.10%
Portfolio turnover rate <sup>(3)</sup>	142.93%	139.50%	226.58%	200.78%	320.83%	355.13%
Net Asset Value per unit, end of year(1)	\$ 11.97	\$ 11.94	\$ 11.94	\$ 11.83	\$ 10.99	\$ 11.25

(1) This information is provided as at December 31 of the year shown.

(2) Management expense ratio is the ratio of all fees and expenses, including harmonized sales taxes but excluding transaction fees charged to the Fund to the average net assets.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

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## **Management Fees**

Ridgewood Capital Asset Management Inc. (the “Manager”) 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 management fee is calculated on a monthly basis as of the last valuation date of each month. Services received under the Master 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.

## **Recent Developments**

The bond market had a positive 2017, returning 2.51% as inflation moderated during the year. This was a welcome development considering the Bank of Canada raised overnight interest rates twice for a total increase of 50 basis points. A firm Canadian dollar, supported by a stronger oil price helped keep a lid on inflationary pressures. The U.S central bank also raised interest rates three times for a total of 75 basis points. In addition, the Federal Open Market Committee announced they will be tapering their bond purchases and begin the process of ending the quantitative easing program put in place after the mortgage and banking crisis in 2008. The European Central bank will likely begin their own tapering later this year. Given debt levels globally are high, we believe interest rate increases in this cycle will be considerably less than they have been historically.

## **Past Performance**

The past performance of the Fund is set out below and indicates year-by-year returns, overall past performance and annual compound returns.

With respect to the charts displayed below, please note the following:

- the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund;
- the return or performance information does not take into account optional charges or income taxes payable that would have reduced returns or performance; and
- how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

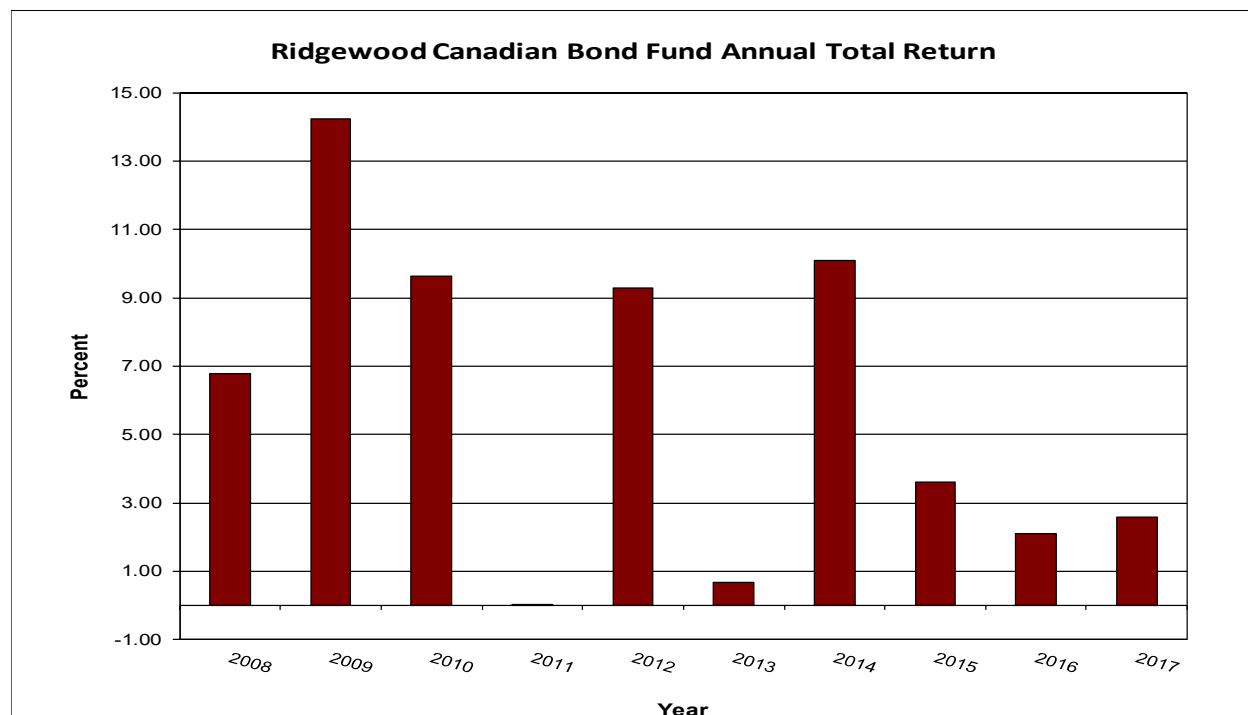
## **Year-By-Year Returns**

The bar chart illustrates how the Fund’s annual total return in each of the past ten years has varied from year to year. The chart also shows, in percentage terms, how much an investment made on January 1 in each year would have increased or decreased by the end of that fiscal year.

# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

## Annual Total Return



## Annual Compound Returns

The following table shows the Fund's historical annual compound total return (net of fees of 1.12%, including HST) for the periods ended December 31 as compared to the performance of the DEX Universe Bond Index.

	One Year	Three Years	Five Years	Ten Years
Ridgewood Canadian Bond Fund	<b>2.58%</b>	2.75%	3.76%	5.81%
FTSE TMX Canada Universe Bond *	<b>2.51%</b>	2.56%	3.01%	4.67%

\* FTSE TMX Canada Universe Bond (formerly, DEX Universe Bond Index) represents a broad selection of hundreds of Canadian corporate and government bonds including short-term, medium-term, and long-term issues.

## Related Party Transactions

Ridgewood Capital Asset Management Inc. ("Ridgewood") manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to a Master Investment Management Agreement made between Ridgewood in its capacity as investment advisor and Ridgewood in its capacity as trustee dated September 1, 2008.

Ridgewood is the Manager and Trustee of the Fund pursuant to a Declaration of Trust dated September 1, 2008, and, as such, is responsible for providing or arranging for required administrative services to the Fund.



# Ridgewood Canadian Bond Fund

For the year ended December 31, 2017

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## **Independent Review Committee**

National Instrument 81-107- Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an independent review committee (“IRC”) to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions.

For the period, January 1 to December 31, 2017, members of the IRC were G. Tomlinson Gunn, Allen B. Clarke, and Marshall E. Nicholishen. Mr. Gunn serves as the Chair of the IRC.

We confirm the Fund did not rely on any approvals or recommendation of the IRC concerning related party transactions during the year.

## **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.

The Fund plans to adopt the new standard on the required effective date. During 2017, the Fund has performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Fund in the future. Overall, the standard is not expected to have a material impact on the measurement basis of the financial assets held by the Fund since the majority of the financial assets are measured at fair value through profit or loss. No impact on the net assets attributable to holders of redeemable units and the results of the Fund is expected from the adoption of IFRS 9.

## **Future-Looking Statements**

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund actions, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund's views to change, the Fund does not undertake to update any forward-looking statements.

## Ridgewood Canadian Bond Fund

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The financial statements have been prepared by management in accordance with IFRS (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 annual 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  
Director  
Ridgewood Capital Asset Management Inc.



Paul W. Meyer  
Director  
Ridgewood Capital Asset Management Inc.

March 12, 2018

## Independent Auditor's Report

To the Unitholders of  
Ridgewood Canadian Bond Fund

We have audited the accompanying financial statements of the Ridgewood Canadian Bond Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's 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 auditor's 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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 the Ridgewood Canadian Bond Fund as at December 31, 2017 and December 31, 2016, and its financial performance, its changes in net assets attributable to holders of redeemable units and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
March 12, 2018

# Ridgewood Canadian Bond Fund

## STATEMENTS OF FINANCIAL POSITION

As at December 31, 2017 and 2016

	31-Dec-17	31-Dec-16
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 31-Dec-17 - \$80,388,511; 31-Dec-16 - \$73,680,181)	80,790,760	74,945,735
Short-term investments at fair value (Cost: 31-Dec-17 - \$478,171; 31-Dec-16 - \$5,588,046)	478,171	5,588,046
Cash	42,784	17,744
Accrued interest receivable	327,678	308,618
Prepaid fees	5,385	24,749
Subscriptions receivable	25,373	7,313
<b>Total Assets</b>	<b>81,670,151</b>	<b>80,892,205</b>
<b>Liabilities</b>		
Accrued expenses	131,220	132,593
Distributions Payable	-	-
Due to Brokers	-	2,081,499
Redemptions payable	28,459	23,601
<b>Total Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>159,679</b>	<b>2,237,693</b>
<b>Net Assets attributable to holders of redeemable units</b>	<b>81,510,472</b>	<b>78,654,512</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>6,809,631</b>	<b>6,587,678</b>
<b>Net assets attributable to holders of redeemable units per uni</b>	<b>11.9699</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 years ended December 31, 2017 and 2016

	2017	2016
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	2,866,444	2,900,589
Net gain (loss) 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	1,726,100	1,511,394
Net change in unrealized (depreciation) appreciation of investments	(863,305)	(921,352)
<b>Total income</b>	<b>3,729,239</b>	<b>3,500,319</b>
<b>Expenses</b>		
Management fees (Note 7)	798,867	789,908
HST expense	84,683	72,478
Administrative and other expenses	25,434	40,125
Custodian fees	60,788	60,955
Audit fees	12,952	16,485
Legal fees	12,538	11,002
Independent Review Committee fees	17,567	14,867
Insurance premium fees	-	8,168
<b>Total operating expenses</b>	<b>1,012,829</b>	<b>1,013,988</b>
<b>Operating profit</b>	<b>2,716,410</b>	<b>2,486,331</b>
Increase in net assets attributable to holders of redeemable units	2,716,410	2,486,331
Daily average number of units	7,585,848	7,428,617
Increase in net assets attributable to holders of redeemable units per uni	0.3581	0.3347

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 years ended December 31, 2017 and 2016

	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	(2,105,100)	(1,896,237)
<b>Redeemable Unit Transactions (Note 5)</b>		
Proceeds from units issued	43,208,501	65,546,169
Amount paid for units redeemed	(42,751,293)	(56,705,744)
Reinvestment of distributions	1,787,442	1,469,343
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,244,650</b>	<b>10,309,768</b>
<b>Net Assets Attributable to Holders of Redeemable units at end of year</b>	<b>81,510,472</b>	<b>78,654,512</b>

### STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase in net assets attributable to holders of redeemable units	2,716,410	2,486,331
Adjustments for		
Interest income on short-term notes	(18,322)	(20,637)
Net realized gains on investments excluding foreign currency	(1,726,100)	(1,511,394)
Net change in unrealized appreciation (depreciation) of investments	863,305	921,352
Purchase of investments	(194,044,784)	(211,422,314)
Proceeds from sale of investments	194,190,751	199,087,882
Increase (Decrease) in accrued interest receivable	(19,060)	(52,726)
(Decrease) in prepaid fees	19,364	(6,303)
Increase (Decrease) in accrued expenses	(1,373)	15,463
Increase (Decrease) in investment purchases payable	(2,081,499)	2,081,499
<b>Net cash used in operating activities</b>	<b>(101,308)</b>	<b>(8,420,847)</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	(18,060)	(4,332)
Payable for units redeemed	4,858	(4,397)
Distributions paid to holders of redeemable units, net of reinvested distributions	(317,658)	(426,894)
Proceeds from units issued	43,208,501	65,546,169
Amount paid for units redeemed	(42,751,293)	(56,705,744)
<b>Net cash provided by (used in) financing activities</b>	<b>126,348</b>	<b>8,404,802</b>
<b>Increase (decrease) in cash</b>	<b>25,040</b>	<b>(16,045)</b>
<b>Cash, beginning of year</b>	<b>17,744</b>	<b>33,789</b>
<b>Cash, end of year</b>	<b>42,784</b>	<b>17,744</b>
Interest received	2,847,384	2,847,863

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

## Ridgewood Canadian Bond Fund

### Schedule of Investments

As at December 31, 2017

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
480000 Canadian Treasury Bill, 1.009%, May 03, 2018	478,171	478,171	0.59%
<b>Investments</b>			
<b>Federal Bonds</b>			
1700000 Canada Housing Trust No 1, 1.150%, December 15, 2021	1,661,469	1,642,530	
300000 Canada Housing Trust No 1, 1.190%, September 15, 2026	292,425	288,832	
6700000 Canadian Government Bond, 2.750%, December 01, 2048	7,454,345	7,421,031	
<b>Total Federal Bonds</b>	<b>9,408,239</b>	<b>9,352,393</b>	<b>11.47%</b>
<b>Provincial Bonds</b>			
3899000 First Nations Finance Authority, 3.400%, June 26, 2024	4,122,680	4,062,345	
250000 Province of Alberta, 3.300%, December 01, 2046	274,718	264,007	
3000000 Province of British Columbia, 2.800%, June 18, 2048	2,820,170	2,960,665	
2000000 Province of Manitoba, 1.550%, September 05, 2021	1,995,800	1,962,252	
1500000 Province of Manitoba, 2.850%, September 05, 2046	1,421,670	1,442,116	
1250000 Province of Newfoundland and Labrador, 3.300%, October 17, 2046	1,138,788	1,266,378	
1000000 Province of Ontario, 1.350%, March 08, 2022	972,440	967,627	
1000000 Province of Ontario, 1.950%, January 27, 2023	995,590	986,133	
1000000 Province of Quebec, 3.500%, December 01, 2045	1,135,180	1,107,486	
1000000 Province of Saskatchewan, 2.750%, December 02, 2046	876,500	951,342	
<b>Total Provincial Bonds</b>	<b>15,753,536</b>	<b>15,970,351</b>	<b>19.59%</b>
<b>Municipal Bonds</b>			
1500000 City of Montreal, 3.000%, September 01, 2027	1,506,735	1,522,548	1.87%
<b>Corporate Bonds</b>			
500000 AltaGas Ltd., 5.160%, January 13, 2044	535,335	540,128	
1000000 Bank of Montreal, 3.320%, June 01, 2026	999,860	1,017,252	
1000000 Bank of Montreal, 2.570%, June 01, 2027	1,000,000	984,411	
500000 Bank of Nova Scotia, 1.900%, December 02, 2021	499,860	489,779	
1000000 Brookfield Renewable Partners ULC, 3.630%, January 15, 2027	999,500	997,334	
1000000 Cameco Corp., 3.750%, November 14, 2022	1,015,100	987,708	
1000000 Cameco Corp., 4.190%, June 24, 2024	1,026,730	992,661	
2000000 Cameco Corp., 5.090%, November 14, 2042	1,834,430	1,830,796	
1000000 Canadian Imperial Bank of Commerce, 3.000%, October 28, 2024	999,770	1,009,250	
1000000 Capital Power Corp., 4.284%, September 18, 2024	1,000,000	1,016,879	
1000000 Chip Mortgage Trust, 2.330%, April 29, 2020	988,980	983,996	
1216000 Citigroup Inc., 4.090%, June 09, 2025	1,245,099	1,255,439	
1400000 CT Real Estate Investment Trust, 3.469%, June 16, 2027	1,400,000	1,373,453	
1000000 Empire Life Insurance Co., 3.383%, December 16, 2026	1,012,350	1,003,086	
1000000 Enbridge Inc., 4.570%, March 11, 2044	1,039,930	1,009,926	
1000000 Fairfax Financial Holdings Ltd., 4.250%, December 06, 2027	999,920	990,946	
1347000 Granite REIT Holdings LP, 3.873%, November 30, 2023	1,351,364	1,352,243	
1000000 Laurentian Bank of Canada, 4.250%, June 22, 2027	1,009,300	1,006,790	
901000 Loblaw Cos. Ltd., 5.860%, June 18, 2043	1,021,752	1,053,185	
1000000 Manufacturers Life Insurance Co., 2.640%, January 15, 2025	999,970	1,005,584	
1500000 MCAP Commercial LP, 5.000%, December 14, 2022	1,500,000	1,502,898	
1000000 Morgan Stanley, 3.000%, February 07, 2024	999,810	995,327	
3146805 OMERS Realty Corp., 3.666%, December 05, 2022	3,146,805	3,217,607	
1000000 Reliance LP, 3.813%, September 15, 2020	1,000,030	1,018,552	
1000000 Royal Bank of Canada, 2.000%, March 21, 2022	999,850	980,921	
1000000 Royal Bank of Canada, 2.333%, December 05, 2023	1,000,000	983,161	
2000000 Teranet Holdings LP, 5.754%, December 17, 2040	2,158,400	2,128,279	
1400000 TransAlta Corp., 7.300%, October 22, 2025	1,382,000	1,527,431	
1000000 Wells Fargo & Co., 2.222%, March 15, 2021	1,000,000	990,930	
<b>Total Corporate Bonds</b>	<b>34,166,145</b>	<b>34,245,952</b>	<b>42.01%</b>
<b>Mortgage Backed Securities</b>			
2000000 Institutional Mortgage Securities Canada Inc., 4.186%, May 12, 2024	1,913,800	1,940,000	
2052000 Institutional Mortgage Securities Canada Inc., 3.100%, March 12, 2025	1,820,124	1,836,540	
2000000 Institutional Mortgage Securities Canada Inc., D, 3.828%, March 12, 2025	1,795,980	1,787,000	
1000000 Institutional Mortgage Securities Canada Inc., E, 3.828%, March 12, 2025	870,650	865,000	
2000000 Institutional Mortgage Securities Canada Inc., 4.192%, July 12, 2045	2,029,340	2,008,108	
4000000 Merrill Lynch Financial Assets Inc., 5.143%, January 12, 204C	1,922,560	2,067,960	
2850000 Real Estate Asset Liquidity Trust, 3.451%, May 12, 2025	2,751,618	2,735,999	
2000000 Real Estate Asset Liquidity Trust, 3.660%, July 12, 2025	1,775,380	1,775,000	
3379000 Real Estate Asset Liquidity Trust, 3.450%, May 12, 2026	3,124,291	3,124,222	
1821000 Real Estate Asset Liquidity Trust, 3.932%, November 12, 2052	1,550,113	1,559,687	
<b>Total Mortgage Backed Securities</b>	<b>19,553,856</b>	<b>19,699,516</b>	<b>24.17%</b>
<b>Total Bonds and Mortgage Backed Securities</b>	<b>80,388,511</b>	<b>80,790,760</b>	<b>99.11%</b>
<b>Total Investments</b>	<b>80,866,682</b>	<b>81,268,931</b>	<b>99.70%</b>
<b>Cash and other assets, net of liabilities</b>	<b>241,541</b>	<b>241,541</b>	<b>0.30%</b>
<b>Net assets</b>		<b>81,510,472</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

December 31, 2017

### 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, administrator 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 March 12, 2018.

### 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### 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. As at December 31, 2017, no amounts were offset in the financial statements.



# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

December 31, 2017

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

#### *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. Unlisted convertible debentures are valued at cost, 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.

#### *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.

#### *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*

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.

# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

December 31, 2017

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

Financial Instruments (continued)

Level 3 Inputs that are unobservable.

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, redemptions 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 financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the "functional currency"). The financial statements of the Fund are presented in Canadian Dollar ("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.

*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 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.

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 4 – Financial Instruments - Disclosure for further information about the fair value measurement of the Fund's financial instruments.

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

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

*Critical accounting estimates and judgments (continued)*

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 year from January 1 to December 31, 2017 and January 1 to December 31, 2016:

	2017	2016
Units outstanding, beginning of year	6,587,678	5,675,078
Units issued for cash	3,618,606	5,459,035
Units redeemed	(3,545,796)	(4,667,362)
Reinvestment of distribution	149,143	120,927
Units outstanding, end of period	6,809,631	6,587,678

### 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 year ended December 31, 2017 amounted to \$798,867 (2016 - \$789,908).

#### *Independent Review Committee fees*

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2017 was \$17,567 (2016 - \$14,867).

### 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

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

### 7. Management fees and expenses (continued)

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. Brokerage commissions

The Fund uses some of the commissions generated from transactions with the brokerage industry for goods and services used in the investment decision making process and other executions.

### 9. 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.

### 10. 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, 2017, capital losses of \$2,911,985 (2016 - \$3,438,044) 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.

### 11. 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 December 31, 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	42,784	-	478,170	2,002,548	12,742,253	66,045,960	-	81,311,715

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

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

#### Interest Rate Risk (continued)

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

At December 31, 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 (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 (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.

Portfolio by rating category	December 31, 2017
Rating	As a % of net assets attributable to holders of redeemable units
AAA/Aaa	16.90%
AA/Aa	20.53%
A/A	22.22%
BBB/Baa	38.81%
BB/Ba	1.24%
Total	99.70%

Portfolio by rating category	December 31, 2016
Rating	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%

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

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

#### *Credit Risk (Continued)*

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 (2016 - \$Nil).

#### *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 \$0.5 million (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.

<b>December 31, 2017</b>			
<b>Financial Liabilities</b>	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 28,459	\$ 28,459
Accrued expenses	-	131,220	131,220
Net Assets attributable to holders of redeemable units	81,510,472	-	81,510,472
<b>Total Liabilities</b>	<b>\$ 81,510,472</b>	<b>\$ 159,679</b>	<b>\$ 81,670,151</b>

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:

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

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

#### Concentration Risk (Continued)

Market segments	December 31, 2017	December 31, 2016
Canadian Short Term Investments	0.59%	7.10%
Federal Bonds	11.47%	17.50%
Provincial Bonds	19.59%	31.59%
Municipal Bonds	1.87%	0.00%
Corporate Bonds	42.01%	34.48%
Mortgage Backed Securities	24.17%	11.72%
Total	99.70%	102.39%

### 12. Financial Instruments

#### 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 December 31, 2017 and December 31, 2016.

Financial assets at fair value as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Cash</b>	42,784	-	-	42,784
<b>Bonds</b>	-	61,091,244	-	61,091,244
<b>Mortgage Backed Securities (MBS)</b>	-	19,699,516	-	19,699,516
<b>Short Term Investments</b>	-	478,171	-	478,171
	42,784	81,268,931	-	81,311,715

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 year ended December 31, 2017 and 2016.

In addition, there were no investments or transactions classified in Level 3 for the year ended December 31, 2017 and 2016.

### 13. Financial instruments by category

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

# Ridgewood Canadian Bond Fund

## Notes to the Financial Statements

December 31, 2017

### 13. Financial instruments by category (continued)

#### Financial instruments by category as of December 31, 2017

Assets	HFT	Financial assets at FVTPL	
		Designated at inception	Total \$
Non-derivative financial assets	-	80,790,760	80,790,760
Total	-	80,790,760	80,790,760

#### 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 December 31, 2017 and December 31, 2016 are designated as FVTPL.

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

### 14. Future accounting policies

#### New standards, amendments and interpretations issued but not yet effective

##### IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 issued in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. It is effective for annual periods beginning on or after January 1, 2018. The fund plans to adopt the new standard the date it becomes effective.

##### Classification and measurement of financial assets and financial liabilities

Under IFRS 9, classification and measurement of financial assets will be driven by the Fund's business model for managing them and their contractual cash flows. Classification and measurement categories under IFRS 9 are amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

IFRS 9 largely retains the existing requirements for classification and measurement of financial liabilities. However, unlike IAS 39 where all fair value changes of liabilities designated at fair value through profit or loss are recognized in profit or loss, under IFRS 9, fair value changes related to changes in the issuer's own credit risk will be presented in other comprehensive income.

Based on the Fund's initial assessment, IFRS 9 is not expected to have a material impact on classification and measurement of financial instruments, since the Fund makes decisions based on the assets' fair values and manages the assets to realize those fair values. As such the majority of the Fund's financial assets will continue to be measured at FVTPL. In addition, derivatives will continue to be measured at FVTPL. Loans, and other financial instruments at amortized cost, will continue to be measured at amortized cost as the business model for these is solely to collect principal and interest. However, the Fund will continue to analyze the contractual cash flow characteristics of these financial instruments before concluding on the classification and measurement as per IFRS 9.



# Ridgewood Canadian Bond Fund

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## Notes to the Financial Statements

December 31, 2017

### 14. Future accounting policies (Continued)

#### Impairment of financial assets

IFRS 9 also introduces the expected credit loss ("ECL") model for impairment of financial assets measured at amortized cost and debt instruments measured at FVOCI. The ECL impairment model will not have a material impact to the Fund's financial assets given that the majority of the Fund's financial assets will continue to be measured at FVTPL.

#### Hedge accounting

The Fund does not apply hedge accounting, therefore, IFRS 9 hedge accounting related changes do not have an impact on the Fund's financial statements.

Based on the Fund's initial assessment, IFRS 9 is not expected to have a material impact to the Fund's financial statements.

**Mutual Funds**  
**Managed by Ridgewood Capital Asset Management Inc.**

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Ridgewood Canadian *Bond Fund*

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*Visit our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca) for additional information on Ridgewood Funds.*