



## **Ridgewood Tactical Yield Fund**

Interim Financial Report (Unaudited)  
For the six months ended June 30, 2016

**Ridgewood Tactical Yield Fund**  
**Interim Financial Report (Unaudited)**

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Message to Unitholders	2
Unaudited Interim Report Statement	3
Management's Responsibility for Financial Reporting	4
Financial Statements	
Statements of Net Assets	5
Statements of Financial Operations	5
Statements of Changes in Net Assets	6
Statements of Cash Flows	6
Statement of Investments	7
Notes to the Financial Statements	8 - 16

## **Message to Unitholders**

The first half of 2016 produced positive returns for bond investors, particularly in the corporate bond sectors. The overall FTSE/TMX Universe Bond Index was up 4.05% but infrastructure bonds, which include sectors such as power generation, renewable energy and utilities, were up over 9%. This highlights the importance of sector selection within a bond portfolio as the low Government yields will only provide modest returns going forward. Globally, interest rates are continuing to decline and in some cases yields are negative on short term bonds. The search for income is expected to force investors to positive yielding assets and into corporate bonds in particular.

Long term Canada bonds, those maturing over 10 years, were the top performers year to date. Returns were over 10% in the communication sector as the overall higher yield created strong demand for these bonds. Short term bonds were the weakest performing sector, returning a modest 1% overall.

The Bank of Canada has kept interest rates on hold in 2016 and has repeatedly stated that they will not cut rates unless the economy weakens significantly. That being said they likely are on hold for an extended period of time. The European Central Bank has continued to push overnight rates into negative territory so the effect of this is net tightening by other central banks that are on hold.

Global growth has been steady but not to the level it should be at this point in the economic cycle. Therefore we expect interest rates will stay low and perhaps go lower for the remainder of the year. The demand for corporate bonds will remain robust and the fund is currently positioned to provide both income and capital appreciation.

June 30, 2016

## **Ridgewood Tactical Yield Fund**

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Interim Financial Report 2016 (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 Tactical Yield 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.

**Ridgewood Tactical Yield Fund**  
**STATEMENTS OF FINANCIAL POSITION**

As at June 30, 2016 (Unaudited) and December 31, 2015

	30-Jun-16	31-Dec-15
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 30-Jun-16 - \$76,653,462; 31-Dec-15 - \$81,019,748)	77,284,663	81,249,775
Short-term investments at fair value (Cost: 30-Jun-16 - \$5,565,878; 31-Dec-15 - \$707,742)	5,565,878	707,742
Cash	69,941	4,747
Accrued interest receivable	719,802	755,530
Dividends receivable	75	46,609
Prepaid fees	6,068	8,841
Subscriptions receivable	332,600	42,195
<b>Total Assets</b>	<b>83,979,027</b>	<b>82,815,439</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accrued expenses	156,101	164,025
Due to Brokers	5,643,258	-
Distributions Payable	252,140	-
Redemptions payable	135,063	35,350
<b>Total Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>6,186,562</b>	<b>199,375</b>
<b>Net Assets attributable to holders of redeemable units</b>	<b>77,792,465</b>	<b>82,616,064</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>8,404,650</b>	<b>9,049,710</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>9.2559</b>	<b>9.1291</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 months period ended June 30, 2016 and 2015 (Unaudited)

	30-Jun-16	30-Jun-15
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	2,240,409	1,389,057
Dividend income	49,091	380,776
Net gain (loss) on foreign exchange	536	(38,923)
<b>Other changes in fair value on financial assets and liabilities at fair value through profit or loss</b>		
Net realized gain on sale of investments	369,379	352,932
Net change in unrealized appreciation of investments	404,509	548,867
<b>Total income</b>	<b>3,063,924</b>	<b>2,632,709</b>
<b>Expenses</b>		
Management fees (Note 7)	379,397	296,211
Administrative and other expenses	103,955	72,713
Custodian fees	30,394	30,079
HST expense	63,200	48,111
Independent Review Committee fees	6,233	3,333
Audit fees	7,939	9,920
Legal fees	9,027	3,006
Withholding Taxes	10,775	2,915
Transaction Costs	21,178	9,518
<b>Total operating expenses</b>	<b>632,098</b>	<b>475,806</b>
<b>Operating profit</b>	<b>2,431,826</b>	<b>2,156,903</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,431,826</b>	<b>2,156,903</b>
<b>Daily average number of units</b>	<b>9,131,655</b>	<b>7,046,521</b>
<b>Increase in net assets attributable to holders of redeemable units per unit</b>	<b>0.2660</b>	<b>0.3060</b>

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

## Ridgewood Tactical Yield Fund

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

For the six months period ended June 30, 2016 and 2015 (Unaudited)

	2016	2015
	\$	\$
<b>Net Assets Attributable to Holders of Redeemable units at beginning of period</b>	<b>82,616,064</b>	<b>62,303,859</b>
<b>Distributions to redeemable unitholders</b>		
From net investment income	(1,626,877)	(1,270,577)
<b>Redeemable Unit Transactions (Note 5)</b>		
Proceeds from units issued	19,157,652	8,120,270
Amount paid for units redeemed	(26,074,127)	(4,315,300)
Reinvestment of distributions	1,287,927	988,434
	(5,628,548)	4,793,404
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,431,826</b>	<b>2,156,903</b>
<b>Net Assets Attributable to Holders of Redeemable units at end of period</b>	<b>77,792,465</b>	<b>67,983,589</b>

### STATEMENTS OF CASH FLOWS

For the six months period ended June 30, 2016 and 2015 (Unaudited)

	2016	2015
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase (decrease) in net assets attributable to holders of redeemable units	2,431,826	2,156,903
Adjustments for		
Interest income on short-term notes	555	(2,807)
Foreign exchange gain (loss) on cash	(1,562)	38,923
Net realized (losses) on investments excluding foreign currency	(369,379)	(352,932)
Net change in unrealized appreciation (depreciation) on investments	(404,509)	(548,867)
Purchase of investments	(215,333,590)	(72,978,254)
Proceeds from sale of investments	215,192,721	67,927,908
Transaction costs	21,178	9,518
Increase (Decrease) in accrued interest and dividends receivable	82,262	(68,541)
Increase (Decrease) in prepaid fees	2,773	(941)
Increase in accrued expenses	(7,924)	(20,151)
Increase in investment purchases payable	5,643,258	-
<b>Net cash (used in) in operating activities</b>	<b>7,257,609</b>	<b>(3,839,241)</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	(290,405)	(26,550)
Redemptions payable in advance	99,713	56,405
Distributions paid to holders of redeemable units, net of reinvested distributions	(86,810)	(63,096)
Proceeds from units issued	19,157,652	8,120,270
Payment for redemption of shares	(26,074,127)	(4,315,300)
<b>Net cash provided by financing activities</b>	<b>(7,193,977)</b>	<b>3,771,729</b>
<b>Increase (decrease) in cash</b>	<b>63,632</b>	<b>(67,512)</b>
<b>Foreign exchange gain (loss) on cash</b>	<b>1,562</b>	<b>(38,923)</b>
<b>Cash, beginning of period</b>	<b>4,747</b>	<b>131,106</b>
<b>Cash, end of period</b>	<b>69,941</b>	<b>24,671</b>
<b>Interest received</b>	<b>2,276,137</b>	<b>1,334,069</b>
<b>Dividends received, net of withholding taxes</b>	<b>35,759</b>	<b>367,223</b>

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

**Ridgewood Tactical Yield Fund**  
**Schedule of Investments**  
As at June 30, 2016

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
5570000 Canadian Treasury Bill, 0.491%, August 25, 2016	5,565,878	5,565,878	7.15%
<b>Investments</b>			
<b>Federal Bonds</b>			
4000000 Canadian Government Bond, 3.500%, December 01, 2045	5,630,600	5,643,000	
<b>Total Federal Bonds</b>	<b>5,630,600</b>	<b>5,643,000</b>	<b>7.26%</b>
<b>Provincial Bonds</b>			
750000 Province of Ontario, 2.800%, June 02, 2048	745,440	760,786	
<b>Total Provincial Bonds</b>	<b>745,440</b>	<b>760,786</b>	<b>0.98%</b>
<b>Corporate Bonds</b>			
1000000 407 International Inc., 3.600%, May 21, 2047	998,880	1,036,380	
1500000 Bank of America Corp., 5.200%, December 31, 2049	1,491,503	1,833,604	
500000 Bank of America Corp., 6.250%, December 31, 2049	544,750	660,292	
1000000 Brookfield Asset Management Inc., 5.950%, June 14, 2035	1,101,500	1,139,384	
1000000 Brookfield Residential Properties Inc., 6.125%, May 15, 2023	1,000,000	965,917	
1000000 Bruce Power LP, 2.844%, June 23, 2021	1,000,000	1,012,559	
1000000 Bruce Power LP, 3.969%, June 23, 2026	1,000,000	1,021,395	
1000000 Chip Mortgage Trust, 2.330%, April 29, 2020	988,980	1,008,195	
2500000 Citigroup Inc., 4.090%, June 09, 2025	2,501,119	2,571,965	
2000000 Citigroup Inc., 5.160%, May 24, 2027	2,008,000	2,204,293	
1000000 CT Real Estate Investment Trust, 3.289%, June 01, 2026	1,000,000	1,011,885	
2500000 DHX Media Ltd., 5.875%, December 02, 2021	2,461,875	2,484,375	
1250000 Enbridge Pipelines Inc., 4.550%, September 29, 2045	1,242,300	1,337,614	
1000000 Fairfax Financial Holdings Ltd., 4.500%, March 22, 2023	994,310	1,031,450	
2000000 Federated Co-Operatives Ltd., 3.917%, June 17, 2025	2,000,000	2,033,094	
1000000 FortisAlberta Inc., 4.270%, September 22, 2045	998,820	1,140,480	
3000000 Gateway Casinos & Entertainment Ltd., 8.500%, November 26, 2020	2,910,000	2,832,500	
3000000 GFL Environmental Corp., 7.500%, June 18, 2018	2,976,249	3,043,125	
500000 GFL Environmental Inc., 7.875%, April 01, 2020	623,840	655,844	
1000000 Golf Town Canada Inc / Golfsmith International Holdings Inc., 10.500%, July 24, 2018	1,008,438	450,169	
850000 Great Canadian Gaming Corp., 6.625%, July 25, 2022	866,625	869,125	
1000000 Mattamy Group Corp., 6.500%, November 15, 2020	1,201,082	1,253,247	
2750000 Mattamy Group Corp., 6.875%, November 15, 2020	2,588,945	2,733,958	
2485000 MCAP Commercial LP, 3.955%, March 11, 2019	2,468,848	2,494,401	
2000000 Medavie Inc., 6.000%, May 21, 2024	2,028,000	2,055,000	
500000 Newalta Corp., 5.875%, April 01, 2021	500,000	372,292	
1430337 Northland Power Solar Finance One LP, 4.397%, June 30, 2032	1,430,537	1,562,335	
1000000 Pembina Pipeline Corp., 4.810%, March 25, 2044	1,039,290	957,105	
1000000 Reliance LP, 4.075%, August 02, 2021	1,000,000	1,020,612	
4000000 River Cree Enterprises LP, 11.000%, January 20, 2021	3,992,513	3,870,000	
1000000 Royal Bank of Scotland Group PLC, 5.125%, May 28, 2024	1,077,751	1,268,396	
1500000 Shaw Communications Inc., 6.750%, November 09, 2039	1,850,100	1,881,172	
341102 Sherritt International Corp., 7.500%, September 24, 2020	341,102	178,994	
1000000 Sherritt International Corp., 7.875%, October 11, 2022	980,000	509,167	
1000000 Sobeys Inc., 6.060%, October 29, 2035	1,096,620	1,094,299	
1000000 Sobeys Inc., 6.640%, June 07, 2040	1,200,700	1,152,184	
2000000 Superior Plus LP, 6.500%, December 09, 2021	2,000,000	2,005,000	
1000000 TELUS Corp., 4.850%, April 05, 2044	974,380	1,058,844	
1500000 Toronto Hydro Corp., 2.520%, August 25, 2026	1,499,760	1,523,869	
2000000 TransAlta Corp., 5.000%, November 25, 2020	1,975,850	1,908,284	
2692000 TransAlta Corp., 7.300%, October 22, 2029	2,435,100	2,228,486	
1700000 TransAlta Corp., 6.900%, November 15, 2030	1,529,400	1,337,011	
1000000 TransCanada Pipelines Ltd., 4.350%, June 06, 2046	997,670	1,044,059	
1500000 Union Gas Ltd., 3.800%, June 01, 2046	1,499,190	1,570,843	
<b>Total Corporate Bonds</b>	<b>65,424,027</b>	<b>65,423,203</b>	<b>84.09%</b>
<b>Equities</b>			
888 Slate Retail REIT	11,675	12,139	
<b>Total Equities</b>	<b>11,675</b>	<b>12,139</b>	<b>0.02%</b>
<b>Mortgage Backed Securities</b>			
1000000 Institutional Mortgage Securities Canada Inc., 4.664%, July 12, 2045	897,500	977,635	
1000000 Merrill Lynch Financial Assets Inc., 5.192%, January 12, 2040	929,550	1,004,500	
1000000 Merrill Lynch Financial Assets Inc., 5.726%, May 12, 2044	946,300	1,028,000	
1400000 Merrill Lynch Financial Assets Inc., 5.220%, March 12, 2049	1,101,600	1,422,400	
1000000 Schooner Trust, 5.236%, June 12, 2022	966,770	1,013,000	
<b>Total Mortgage Backed Securities</b>	<b>4,841,720</b>	<b>5,445,535</b>	<b>7.00%</b>
<b>Investments</b>			
<b>Transaction costs</b>	<b>76,653,462</b>	<b>77,284,663</b>	<b>99.35%</b>
<b>Total Investments and short-term Investments</b>	<b>82,219,340</b>	<b>82,850,541</b>	<b>106.50%</b>
<b>Cash and other assets, net of liabilities</b>		<b>(5,058,076)</b>	<b>-6.50%</b>
<b>Net Assets</b>		<b>77,792,465</b>	<b>100.00%</b>

The accompanying notes are an integral part of the financial statements



# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

### 1. Establishment of the Fund

Ridgewood Tactical Yield Fund (the "Fund") is an open-end mutual fund trust existing under the laws of the Province of Ontario pursuant to 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 March 31, 2011. The Fund began operations on March 31, 2011. 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, transfer agent and registrar of the Fund, and, as such, performs certain valuation and other services for the Fund. The financial statements were authorized for issuance by Ridgewood Capital Asset Management Inc. on August 24, 2016.

### 2. Investment objective of the Fund

The investment objective of the Fund is to achieve a high level of income and capital gains from an actively managed portfolio. The Fund is invested primarily in securities of Canadian issuers, including preferred shares, investment grade bonds, convertible bonds, real estate investment trusts ("REITs") and high yield bonds. The Fund may also invest in comparable 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 semi-annual financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") 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 ("FVPL"). 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 Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

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

#### *Transaction costs*

Transaction costs are expensed and are included in "transaction costs" in the Statements of Comprehensive Income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The cost of investments for each security is determined on an average cost basis.

#### *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:

Securities are valued at fair value, which is determined by the closing price on the recognized stock exchange on which the securities are listed or principally traded. If no bid prices are available, the securities are valued at the closing price.

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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

### 4. Summary of significant accounting policies (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 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) Common stock

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

#### b) 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 semi-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 semi-annual financial statements of the Fund are presented in CAD which is the Fund's functional currency.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

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

#### 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 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 - Disclosures 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 Declaration of Trust 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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

### 5. Redeemable Units (continued)

Following are the unit transactions during the period from January 1 to June, 30, 2016 and January 1 to December 31, 2015:

	2016	2015
Units outstanding, beginning of period	9,049,710	6,798,795
Units issued for cash	2,098,946	3,336,396
Units redeemed	(2,886,574)	(1,342,950)
Units issued on reinvestment of distributions	142,568	257,469
Units outstanding, end of period	8,404,650	9,049,710

### 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 March 31, 2011, 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 1.25% (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 period ended June 30, 2016 amounted to \$ 379,397 (June 30, 2015 - \$296,211).

#### *Independent Review Committee fees*

The total remuneration paid to members of the Independent Review Committee during the period ended June 30, 2016 was \$ 6,233 (June 30, 2015 - \$3,333).

### 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 1.25% (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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

### 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, 2015, capital losses of \$906,147 (2014 - \$1,516,741) 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.

### 10. Financial instruments and risk management

The Fund's financial instruments consist of bonds, equities, 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 repricing or maturity dates.

	As at June 30, 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	69,941	5,565,878	-	5,987,695	15,825,872	55,458,957	12,139	82,920,482

  

	As at December 31, 2015							
	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	4,747	-	707,742	1,237,357	15,208,217	57,679,692	7,124,509	81,962,264

At June 30, 2016, 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 period would amount to approximately \$4.5 million (December 31, 2015 - \$6.0 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 \$4.5 million (December 31, 2015 - \$6.0 million).

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

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

#### *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 cash equivalents 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 BBB/Baa and B/B rated securities.

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

#### Portfolio by rating category

Rating	June 30, 2016	December 31, 2015
	As a % of Net Assets	As a % of Net Assets
AAA/Aaa	15.71%	8.21%
AA/Aa	0.98%	0.00%
A/A	9.58%	2.58%
BBB/Baa	44.18%	49.42%
BB/Ba	18.10%	19.87%
B/B	14.73%	7.12%
CC/Ca	0.58%	0.90%
Unrated	2.64%	2.49%
<b>Total</b>	<b>106.50%</b>	<b>90.59%</b>

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. As at June 30, 2016 the Fund held \$5,721,693 (December 31, 2015 - \$10,154,967) in assets and liabilities denominated in currencies other than the Canadian dollar. As at June 30, 2016, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, net assets would have increased or decreased by approximately \$286,085 (December 31, 2015 - \$507,748).

#### *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 and cash equivalent positions.

The Fund's short-term investments of approximately \$5.6 million (December 2015, \$0.7 million) are invested in Canadian Government treasury bills with less than 120 days to maturity. The Fund's accrued liabilities are generally due and paid within three months.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

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

June 30, 2016			
Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 135,063	\$ 135,063
Accrued expenses	-	6,051,499	6,051,499
Net Assets attributable to holders of redeemable units	77,792,465	-	77,792,465
<b>Total liabilities</b>	<b>\$ 77,792,465</b>	<b>\$ 6,186,562</b>	<b>\$ 83,979,027</b>

December 31, 2015			
Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 35,350	\$ 35,350
Accrued expenses	-	164,025	164,025
Net Assets attributable to holders of redeemable units	82,616,064	-	82,616,064
<b>Total liabilities</b>	<b>\$ 82,616,064</b>	<b>\$ 199,375</b>	<b>\$ 82,815,439</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, 2016	December 31, 2015
Canadian Short Term Investments	7.15%	0.86%
Federal Bonds	7.26%	7.36%
Provincial Bonds	0.98%	-
Corporate Bonds	84.09%	75.67%
Equities	0.02%	8.62%
Mortgage Backed Securities	7.00%	6.69%
<b>Total</b>	<b>106.50%</b>	<b>99.20%</b>

### 11. Financial Instruments – Disclosures

#### Fair Value Disclosure

The Fund's financial assets recorded at fair value have been categorized based upon a 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, 2016 and December 31, 2015.

	Financial assets at fair value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	69,941	-	-	69,941
Short Term Investments	-	5,565,906	-	5,565,906
Bonds	-	71,826,989	-	71,826,989
Mortgage Backed Securities (MBS)	-	5,445,535	-	5,445,535
Equities	12,139	-	-	12,139
	<b>82,080</b>	<b>82,838,430</b>	<b>-</b>	<b>82,920,510</b>



# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2016 (Unaudited)

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

	Financial assets at fair value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	4,747	-	-	4,747
Short Term Investments	-	707,742	-	707,742
Bonds	-	68,600,995	-	68,600,995
Mortgage Backed Securities (MBS)	-	5,524,270	-	5,524,270
Equities	7,124,510	-	-	7,124,510
	7,129,257	74,833,007	-	81,962,264

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 period ended June 30, 2016 and year ended December 31, 2015.

In addition, there were no investments or transactions classified in Level 3 for the period ended June 30, 2016 and year ended December 31, 2015.

### 12. Financial instruments by category

The Funds financial instruments as at June 30, 2016 and December 31, 2015 are designated as FVTPL.

The Fund's net gains (losses) on financial instruments for the period ended June 30, 2016 and year ended December 31, 2015 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 is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

In December 2014, Disclosure Initiative was issued, which amends IAS 1 Presentation of Financial Statements. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. The amendments also require separate disclosure of other comprehensive income attributable to joint ventures and associates, classified by nature. These amendments are effective for annual periods beginning on or after January 1, 2016. We will provide this disclosure in our December 31, 2016 Financial Statements.

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