



## **Ridgewood Tactical Yield Fund**

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

# Ridgewood Tactical Yield Fund

## Interim Financial Report (Unaudited)

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## **Message to Unitholders**

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

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

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

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

June 30, 2017

## **Ridgewood Tactical Yield Fund**

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Interim Financial Report 2017 (Unaudited)

### **UNAUDITED INTERIM REPORT STATEMENT**

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

## Ridgewood 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.

August 11, 2017

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

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

	30-Jun-17	31-Dec-16
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 30-Jun-17 - \$63,568,374; 31-Dec-16 - \$56,406,689)	64,488,529	57,746,126
Short-term investments at fair value (Cost: 30-Jun-17 - \$633,330; 31-Dec-16 - \$923,854)	633,330	923,854
Cash	353,534	80,878
Accrued interest receivable	477,059	466,164
Dividends receivable	22,630	13,839
Prepaid fees	6,010	5,328
Subscriptions receivable	20,000	8,500
<b>Total Assets</b>	<b>66,001,092</b>	<b>59,244,689</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accrued expenses	181,920	150,640
Due to Brokers	2,292,723	-
Distributions Payable	263,785	-
Redemptions payable	410,615	34,800
<b>Total Liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>3,149,043</b>	<b>185,440</b>
<b>Net Assets attributable to holders of redeemable units</b>	<b>62,852,049</b>	<b>59,059,249</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>6,594,614</b>	<b>6,330,921</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>9.5308</b>	<b>9.3287</b>

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



Director

John H. Simpson, CFA



Director

Paul W. Meyer, CFA

**STATEMENTS OF COMPREHENSIVE INCOME**

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

	30-Jun-17	30-Jun-16
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	1,514,915	2,240,409
Dividend income	47,712	49,091
Foreign exchange gain (loss) on cash	(4,163)	536
<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	2,176,658	369,379
Net change in unrealized (depreciation) appreciation of investments	(420,405)	404,509
<b>Total income</b>	<b>3,314,717</b>	<b>3,063,924</b>
<b>Expenses</b>		
Management fees (Note 7)	256,861	379,397
Administrative and other expenses	111,353	103,955
Custodian fees	30,394	30,394
HST expense	49,397	63,200
Independent Review Committee fees	8,933	6,233
Audit fees	4,882	7,939
Legal fees	12,254	9,027
Withholding Taxes	1,291	10,775
Transaction Costs	14,677	21,178
<b>Total operating expenses</b>	<b>490,042</b>	<b>632,098</b>
<b>Operating profit</b>	<b>2,824,675</b>	<b>2,431,826</b>
Increase in net assets attributable to holders of redeemable units	2,824,675	2,431,826
Daily average number of units	6,433,729	9,131,655
Increase in net assets attributable to holders of redeemable units per unit	0.4390	0.2660

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

	2017	2016
	\$	\$
<b>Net Assets Attributable to Holders of Redeemable units at beginning of period</b>	<b>59,059,249</b>	<b>82,616,064</b>
<b>Distributions to redeemable unitholders</b>		
From net investment income	(1,545,665)	(1,626,877)
<b>Redeemable Unit Transactions (Note 5)</b>		
Proceeds from units issued	12,981,205	19,157,652
Amount paid for units redeemed	(11,650,179)	(26,074,127)
Reinvestment of distributions	1,182,764	1,287,927
	<b>2,513,790</b>	<b>(5,628,548)</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>2,824,675</b>	<b>2,431,826</b>
<b>Net Assets Attributable to Holders of Redeemable units at end of period</b>	<b>62,852,049</b>	<b>77,792,465</b>

### STATEMENTS OF CASH FLOWS

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

	2017	2016
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase (decrease) in net assets attributable to holders of redeemable units	2,824,675	2,431,826
Adjustments for		
Interest income on short-term notes	(5,509)	555
Foreign exchange gain/loss on cash	4,163	(1,562)
Net realized (losses) on investments excluding foreign currency	(2,176,658)	(369,379)
Net change in unrealized appreciation (depreciation) on investments	420,405	(404,509)
Purchase of investments	(96,238,713)	(215,333,590)
Proceeds from sale of investments	91,533,919	215,192,721
Transaction costs	14,677	21,178
Increase (Decrease) in accrued interest and dividends receivable	(19,686)	82,262
Increase (Decrease) in prepaid fees	(682)	2,773
Increase (Decrease) in accrued expenses	31,280	(7,924)
Increase in investment purchases payable	2,292,723	5,643,258
<b>Net cash (used in) in operating activities</b>	<b>(1,319,406)</b>	<b>7,257,609</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	(11,500)	(290,405)
Redemptions payable in advance	375,815	99,713
Distributions paid to holders of redeemable units, net of reinvested distributions	(99,116)	(86,810)
Proceeds from units issued	12,981,205	19,157,652
Payment for redemption of shares	(11,650,179)	(26,074,127)
<b>Net cash provided by financing activities</b>	<b>1,596,225</b>	<b>(7,193,977)</b>
<b>Increase in cash</b>	<b>276,819</b>	<b>63,632</b>
Foreign exchange gain/loss on cash	(4,163)	1,562
<b>Cash, beginning of period</b>	<b>80,878</b>	<b>4,747</b>
<b>Cash, end of period</b>	<b>353,534</b>	<b>69,941</b>
Interest received	1,504,020	2,276,137
Dividends received, net of withholding taxes	37,630	35,759

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

## Ridgewood Tactical Yield Fund

### Schedule of investments

As at June 30, 2017

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
635000 Canadian Treasury Bill, 0.646%, November 16, 2017	633,330	633,330	1.01%
<b>Investments</b>			
<b>Federal Bonds</b>			
4000000 Canadian Government Bond, 2.750%, December 1, 2048	4,639,300	4,566,713	7.27%
<b>Corporate Bonds</b>			
500000 AltaGas Ltd., 5.160%, January 13, 2044	535,335	549,167	
1000000 AT&T Inc., 4.850%, May 25, 2047	993,590	1,025,921	
500000 Bank of America Corp., 6.250%, December 31, 2049	544,750	706,981	1.12%
1000000 Bank of Montreal, 2.570%, June 01, 2027	1,000,000	993,141	
2755000 Bombardier Inc., 7.350%, December 22, 2026	2,741,225	2,757,295	
1000000 Brookfield Asset Management Inc., 5.950%, June 14, 2036	1,101,500	1,180,008	
1000000 Brookfield Infrastructure Finance ULC, 3.315%, February 22, 2024	1,011,100	1,005,827	
1000000 Brookfield Residential Properties Inc., 6.125%, May 15, 2026	1,000,000	1,033,000	
1000000 Cameco Corp., 4.190%, June 24, 2024	1,026,730	1,015,826	
1000000 Cameco Corp., 5.090%, November 14, 2042	928,250	925,048	
1000000 Chartwell Retirement Residences, 3.786%, December 11, 2023	1,000,000	995,964	
1700000 Cominar Real Estate Investment Trust, 4.230%, December 04, 2019	1,768,340	1,713,450	
1000000 Cominar Real Estate Investment Trust, 4.164%, June 01, 2022	1,031,240	981,938	
1000000 Crombie Real Estate Investment Trust, 3.962%, June 01, 2021	1,018,840	1,005,395	
1000000 Empire Life Insurance Co., 3.383%, December 16, 2026	1,012,350	1,008,706	
500000 Enbridge Inc., 4.570%, March 11, 2044	519,965	512,142	
1250000 Enbridge Pipelines Inc., 4.550%, September 29, 2046	1,242,300	1,386,040	
229000 Equitable Group Inc., 5.399%, October 23, 2017	219,840	225,117	
1000000 Fairfax Financial Holdings Ltd., 4.950%, March 03, 2026	1,064,100	1,065,991	
1000000 Fairfax Financial Holdings Ltd., 4.700%, December 16, 2026	1,017,000	1,037,164	
1000000 First National Financial Corp., 4.010%, April 09, 2026	1,009,740	1,002,591	
1500000 George Weston Ltd., 6.690%, March 01, 2033	1,903,365	1,940,456	
1000000 Golf Town Canada Inc., 10.500%, July 24, 2018	1,008,438	253,750	
1000000 Laurentian Bank of Canada, 4.250%, June 22, 2027	1,000,000	996,684	
1389000 Loblaw Cos Ltd., 5.860%, June 18, 2043	1,622,421	1,652,277	
1000000 Mattamy Group Corp., 6.875%, November 15, 2020	941,435	1,027,292	
2000000 Mattamy Group Corp., 6.875%, December 15, 2023	2,720,966	2,665,584	4.24%
2100000 Medavie Inc., 6.000%, May 21, 2024	2,129,473	2,137,800	
1000000 Morgan Stanley, 3.000%, February 07, 2024	999,810	1,007,038	
1000000 North West Redwater Partnership, 3.650%, June 01, 2035	999,330	1,009,848	
1360461 Northland Power Solar Finance One LP, 4.397%, June 30, 2032	1,360,651	1,445,015	
500000 Parkland Fuel Corp., 5.625%, May 09, 2025	500,000	505,104	
1000000 Pembina Pipeline Corp., 4.810%, March 25, 2044	1,039,290	1,031,454	
500000 Pembina Pipeline Corp., 4.740%, January 21, 2047	495,025	511,549	
2000000 River Cree Enterprises LP, 11.000%, January 20, 2021	1,996,257	2,095,338	
1500000 Shaw Communications Inc., 6.750%, November 09, 2039	1,850,100	1,941,578	
1000000 Superior Plus LP, 6.500%, December 09, 2021	1,000,000	1,061,875	
1000000 Superior Plus LP, 5.250%, February 27, 2024	1,000,000	1,027,500	
1000000 TELUS Corp., 4.400%, January 29, 2046	954,240	1,010,881	
1500000 Teranet Holdings LP, 5.754%, December 17, 2046	1,624,150	1,664,312	
2692000 TransAlta Corp., 7.300%, October 22, 2029	2,435,100	2,839,664	
2700000 TransAlta Corp., 6.900%, November 15, 2030	2,508,150	2,775,404	
<b>Total Corporate Bonds</b>	<b>51,874,396</b>	<b>52,727,115</b>	<b>83.89%</b>
<b>Equities</b>			
174000 Pure Multi-Family REIT LP	1,553,564	1,513,800	
130888 Slate Retail REIT	1,809,149	1,786,621	
28900 Smart Real Estate Investment Trust	918,615	928,268	
<b>Total Equities</b>	<b>4,281,328</b>	<b>4,228,689</b>	<b>6.73%</b>
<b>Mortgage Backed Securities</b>			
1000000 Institutional Mortgage Securities Canada Inc., 4.664%, July 12, 2046	897,500	966,012	
1000000 Merrill Lynch Financial Assets Inc., 5.192%, January 12, 2046	929,550	1,000,000	
1000000 Merrill Lynch Financial Assets Inc., 5.726%, May 12, 2044	946,300	1,000,000	
<b>Total Mortgage Backed Securities</b>	<b>2,773,350</b>	<b>2,966,012</b>	<b>4.72%</b>
<b>Investments</b>	<b>63,568,374</b>	<b>64,488,529</b>	<b>102.61%</b>
<b>Transaction costs</b>	<b>(6,280)</b>	<b>-</b>	
<b>Total Investments and short-term Investments:</b>	<b>63,562,094</b>	<b>64,488,529</b>	<b>102.61%</b>
<b>Cash and other assets, net of liabilities</b>	<b>64,195,424</b>	<b>65,121,859</b>	<b>103.62%</b>
<b>Net Assets</b>	<b>(2,269,810)</b>	<b>-3.62%</b>	
<b>Net Assets</b>	<b>62,852,049</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, 2017 (Unaudited)

### 1. Establishment of the Fund

Ridgewood Tactical Yield Fund (the "Fund") is an open-end mutual fund trust existing under the laws 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 are authorized for issuance by Ridgewood Capital Asset Management Inc. on August 11, 2017

### 2. Investment objective of the Fund

The investment objective of the Fund is to achieve a high level of income 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 annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") 34: Interim Financial Reporting, as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

### 4. Summary of significant accounting policies

#### *Financial instruments*

The Fund classifies its investments as financial assets at fair value through profit or loss ("FVYPL"). 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, 2017 (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.

#### *Amendments to IAS1 disclosure initiative*

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

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

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

#### *Capital Disclosures*

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

#### *Valuation of Investments*

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

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

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

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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

#### *Valuation of Investments (continued)*

as of the valuation date for the particular fund for both reporting Net Assets attributable to holders of redeemable units and daily NAV.

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

Cash is comprised of cash on deposit.

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

#### *Investment Transactions and Income Recognition*

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

#### *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

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

#### *Financial Instruments – Disclosures (continued)*

valuation are generally observable and therefore the Fund's bonds and short-term investments have been classified as Level 2.

Please see Note 11 for these disclosures.

#### *Foreign currency*

- a) Functional and presentation currency

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

- b) Foreign currency translation

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

#### *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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

### 5. Redeemable Units

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

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

	<b>2017</b>	<b>2016</b>
Units outstanding, beginning of period	<b>6,330,921</b>	9,049,710
Units issued for cash	<b>1,365,914</b>	2,604,807
Units redeemed	<b>(1,226,775)</b>	(5,651,170)
Units issued on reinvestment of distributions	<b>124,554</b>	327,574
Units outstanding, end of period	<b>6,594,614</b>	6,330,921

### 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 six month period ended June 30, 2017 amounted to \$256,861 (June 30, 2016 - \$379,397).

#### *Independent Review Committee fees*

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

### 7. Management fees and expenses

Ridgewood is entitled to an annual management fee payable out of the assets of the Fund. The maximum management fee is equal to 1.25% (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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

### 8. Distributions

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

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

### 9. Income taxes

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

As at December 31, 2016, capital losses of \$855,140 (2015 - \$906,147) 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, 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
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Interest Rate Exposure</b>	<b>353,534</b>	<b>-</b>	<b>858,447</b>	<b>2,969,791</b>	<b>6,171,838</b>	<b>50,893,094</b>	<b>4,228,689</b>	<b>65,475,393</b>

	As at December 31, 2016							
	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 3 years	3-5 years	More than 5 years	Non interest bearing	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Interest Rate Exposure</b>	<b>80,878</b>	<b>-</b>	<b>923,854</b>	<b>450,169</b>	<b>21,252,971</b>	<b>32,975,321</b>	<b>3,067,664</b>	<b>58,750,858</b>

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

#### *Interest Rate Risk (continued)*

At June 30, 2017, should interest rates have decreased by 100 basis points with all other variables remaining constant, the increase in net assets attributable to holders of redeemable units for the period would amount to approximately \$5.0 million (December 31, 2016 - \$4.4 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 \$5.0 million (December 31, 2016 - \$4.4 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 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 a well-known rating agency Dominion Bond Rating Service Limited and Canadian Bond rating Service Limited.

#### Portfolio by rating category

Rating	June 30, 2017 As a % of Net Assets
AAA/Aaa	8.27%
A/A	3.48%
BBB/Baa	59.25%
BB/Ba	12.72%
B/B	6.03%
CCC/Caa	3.33%
Unrated	3.81%
<b>Total</b>	<b>96.89%</b>

#### Portfolio by rating category

Rating	December 31, 2016 As a % of Net Assets
AAA/Aaa	13.37%
A/A	1.86%
BBB/Baa	31.18%
BB/Ba	27.04%
B/B	11.57%
CC/Ca	4.91%
Unrated	4.22%
<b>Total</b>	<b>94.15%</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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

#### *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, 2017, the Fund held \$3,411,506 (December 31, 2016 - \$9,055,613) in assets and liabilities denominated in currencies other than the Canadian dollar. As at June 30, 2017, 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 \$170,575 (December 31, 2016 - \$452,781).

#### *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 \$0.6 million (December 2016, \$0.9 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.

<b>June 30, 2017</b>			
<b>Financial Liabilities</b>	<b>On Demand</b>	<b>&lt; 3 Months</b>	<b>Total</b>
<b>Redemptions payable</b>	\$ -	\$ 410,615	\$ 410,615
<b>Accrued expenses</b>	-	181,920	181,920
<b>Distributions payable</b>	-	263,785	263,785
<b>Due to Brokers</b>	2,292,723	-	2,292,723
<b>Net Assets attributable to holders of redeemable units</b>	62,852,049	-	62,852,049
<b>Total liabilities</b>	\$ 65,144,772	\$ 856,320	\$ 66,001,092

<b>December 31, 2016</b>			
<b>Financial Liabilities</b>	<b>On Demand</b>	<b>&lt; 3 Months</b>	<b>Total</b>
<b>Redemptions payable</b>	\$ -	\$ 34,800	\$ 34,800
<b>Accrued expenses</b>	-	150,640	150,640
<b>Net Assets attributable to holders of redeemable units</b>	59,059,249	-	59,059,249
<b>Total liabilities</b>	\$ 59,059,249	\$ 185,440	\$ 59,244,689



# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

#### Concentration risk

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

Market segments	June 30, 2017	December 31, 2016
Canadian Short Term Investments	1.01%	1.56%
Federal Bonds	7.27%	11.80%
Corporate Bonds	83.89%	71.65%
Mortgage Backed Securities	4.72%	9.13%
Equities	6.73%	5.19%
Total	103.62%	99.33%

### 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, 2017 and December 31, 2016.

	Financial assets at fair value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	353,534	-	-	353,534
Short Term Investments	-	633,330	-	633,330
Bonds	-	57,293,828	-	57,293,828
Mortgage Backed Securities (MBS)	-	2,966,012	-	2,966,012
Equities	4,228,689	-	-	4,228,689
	4,582,223	60,893,170	-	65,475,393

	Financial assets at fair value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	80,878	-	-	80,878
Short Term Investments	-	923,854	-	923,854
Bonds	-	49,289,223	-	49,289,223
Mortgage Backed Securities (MBS)	-	5,389,239	-	5,389,239
Equities	3,067,664	-	-	3,067,664
	3,148,542	55,602,316	-	58,750,858

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2017 (Unaudited)

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

*Fair Value Disclosure (continued)*

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, 2017 and year ended December 31, 2016.

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

### 12. Financial instruments by category

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

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

Assets	HFT	Financial assets at FVTPL	
		Designated at inception	Total \$
Non-derivative financial assets	-	64,488,529	64,488,529
Total	-	64,488,529	64,488,529

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

Assets	HFT	Financial assets at FVTPL	
		Designated at inception	Total \$
Non-derivative financial assets	-	57,746,126	57,746,126
Total	-	57,746,126	57,746,126

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

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

### 13. Future accounting policies

*Accounting standards issues and amendments not yet adopted*

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

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

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