

# **SHERIDAN BROTHERS TRUST**

**Consolidated Financial Statements**

**December 31, 2017 and 2016**

**(Presented in Canadian Dollars)**

# SHERIDAN BROTHERS TRUST

December 31, 2017 and 2016

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## **INDEPENDENT AUDITOR'S REPORT**

To the Unitholders of  
**Sheridan Brothers Trust**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Sheridan Brothers Trust, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sheridan Brothers Trust as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to note 2 of the notes to the consolidated financial statements which describes a material uncertainty that may cast doubt about Sheridan Brothers Trust's ability to continue as a going concern.

**April 20, 2018**  
**Toronto, Ontario**

*DNTW Toronto LLP*  
**Chartered Professional Accountants**  
**Licensed Public Accountants**

# SHERIDAN BROTHERS TRUST

## Consolidated Statements of Financial Position

As At December 31, 2017 and 2016

(Presented in Canadian Dollars)

|  | Note | 2017                | 2016             |
|--|------|---------------------|------------------|
| <b>ASSETS</b>                            |      |                     |                  |
| <b>Current Assets</b>                    |      |                     |                  |
| Cash                                     |      | \$ 34,299           | \$ 9,070         |
| Investments owned, at fair value         | 4    | 28,897              | -                |
| Due from broker                          |      | 3,154,540           | -                |
| Accounts receivable                      |      | 24,960              | -                |
| Precious metals                          |      | 1,171               | -                |
| Prepaid expenses and sundry              |      | 6,285               | 6,408            |
| <b>Total Assets</b>                      |      | <b>\$ 3,250,152</b> | <b>\$ 15,478</b> |
| <b>LIABILITIES AND EQUITY</b>            |      |                     |                  |
| <b>Current Liabilities</b>               |      |                     |                  |
| Investments sold short, at fair value    | 4    | \$ 671,536          | -                |
| Accounts payable and accrued liabilities |      | 51,067              | 30,896           |
| Loans payable                            | 6    | 2,525,000           | 10,000           |
| Unearned revenue                         |      | -                   | 6,000            |
| <b>Total Current Liabilities</b>         |      | <b>3,247,603</b>    | <b>46,896</b>    |
| <b>Equity</b>                            |      |                     |                  |
| Unitholders' equity                      | 7    | 2,549               | (31,418)         |
| <b>Total Liabilities and Equity</b>      |      | <b>\$ 3,250,152</b> | <b>\$ 15,478</b> |

### Going Concern (Note 2)

Approved on Behalf of the Board of Trustees

Signed - "Michael Sheridan"

Trustee

Signed - "Kieran Prashad"

Trustee

The accompanying notes are an integral part of these consolidated financial statements.

# SHERIDAN BROTHERS TRUST

## Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

|   | Note  | 2017             | 2016              |
|---|-------|------------------|-------------------|
| <b>REVENUE</b>  |       |                  |                   |
| Rental  | 8 (a) | \$ 192,000       | \$ 217,000        |
| Net realized gain on disposal of investments                                |       | 105,149          | -                 |
| Net change in unrealized losses on investments                              |       | (113,401)        | -                 |
| Interest and other  |       | 4,022            | 195               |
| <b>Total Revenue</b>  |       | <b>187,770</b>   | <b>217,195</b>    |
| <b>EXPENSES</b>   |       |                  |                   |
| General and administrative  | 9     | 153,803          | 211,634           |
| Amortization  | 5     | -                | 7,550             |
| Impairment  | 5     | -                | 30,200            |
| <b>Total Expenses</b>   |       | <b>153,803</b>   | <b>249,384</b>    |
| <b>Income (Loss) from Operations</b>  |       | <b>33,967</b>    | <b>(32,189)</b>   |
| Gain on settlement of debts   |       | -                | 141,873           |
| <b>Net Income and Comprehensive Income</b>                                  |       | <b>\$ 33,967</b> | <b>\$ 109,684</b> |
| <b>Income per Unit – Basic and Diluted</b>                                  |       | <b>\$ 0.01</b>   | <b>\$ 0.02</b>    |
| <b>Weighted Average Number of Units<br/>Outstanding – Basic and Diluted</b> |       | <b>4,720,000</b> | <b>4,720,000</b>  |

The accompanying notes are an integral part of these consolidated financial statements.

# SHERIDAN BROTHERS TRUST

Consolidated Statements of Changes in Equity  
Years Ended December 31, 2017 and 2016  
(Presented in Canadian Dollars)

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|                                     | Trust Capital | Contributed Surplus | Deficit        | Total Unitholders' Equity |
|-------------------------------------|---------------|---------------------|----------------|---------------------------|
| <b>Balance at December 31, 2015</b> | \$ 980,000    | \$ 18,084           | \$ (1,139,186) | \$ (141,102)              |
| Net income                          | -             | -                   | 109,684        | 109,684                   |
| <b>Balance at December 31, 2016</b> | \$ 980,000    | \$ 18,084           | \$ (1,029,502) | \$ (31,418)               |
| Net income                          | -             | -                   | 33,967         | 33,967                    |
| <b>Balance at December 31, 2017</b> | \$ 980,000    | \$ 18,084           | \$ (995,535)   | \$ 2,549                  |

The accompanying notes are an integral part of these consolidated financial statements.

# SHERIDAN BROTHERS TRUST

Consolidated Statements of Cash Flows  
Years Ended December 31, 2017 and 2016  
(Presented in Canadian Dollars)

|  | 2017         | 2016       |
|--|--------------|------------|
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>   |              |            |
| Net income                                     | \$ 33,967    | \$ 109,684 |
| <b>Items not requiring an outlay of cash:</b>  |              |            |
| Net realized gain on disposal of investments   | (105,149)    | -          |
| Net change in unrealized losses on investments | 113,401      | -          |
| Amortization                                   | -            | 7,550      |
| Impairment                                     | -            | 30,200     |
| Gain on settlement of debts                    | -            | (141,873)  |
| <b>Changes in non-cash working capital:</b>    |              |            |
| Accounts receivable                            | (24,960)     | -          |
| Prepaid expenses and sundry                    | 123          | (6,408)    |
| Accounts payable and accrued liabilities       | 20,171       | (2,177)    |
| Unearned revenue                               | (6,000)      | 6,000      |
|  | 31,553       | 2,976      |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES</b>   |              |            |
| Loans received                                 | 3,000,000    | 1,500      |
| Loans repaid                                   | (485,000)    | -          |
|  | 2,515,000    | 1,500      |
| <b>CASH USED IN INVESTING ACTIVITIES</b>       |              |            |
| Increase in due from broker                    | (3,154,540)  | -          |
| Proceeds on sale of investments                | 40,031,369   | -          |
| Cost of purchasing investments                 | (39,396,982) | -          |
| Cost of purchasing precious metals             | (1,171)      | -          |
|  | (2,521,324)  | -          |
| <b>Net Increase in Cash</b>                    | 25,229       | 4,476      |
| <b>Cash, Beginning of Year</b>                 | 9,070        | 4,594      |
| <b>Cash, End of Year</b>                       | \$ 34,299    | \$ 9,070   |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>      |              |            |
| Interest paid                                  | \$ -         | \$ -       |
| Interest received                              | 3,991        | -          |
| Income taxes paid                              | -            | -          |

The accompanying notes are an integral part of these consolidated financial statements.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

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### 1. NATURE OF THE BUSINESS

Sheridan Brothers Trust (the "Fund") is an unincorporated open-ended, limited purpose mutual fund trust established under the laws of the Province of Ontario pursuant to a Deed of Trust dated December 28, 2006 (amended and restated on February 21, 2007). The Fund is headquartered at 73 Richmond Street West, Suite 212 in Toronto, Ontario M5H 4E8.

The Board approved these consolidated financial statements for issue on April 20, 2018.

### 2. BASIS OF PREPARATION

#### Going Concern

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Fund will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from carrying values as shown in these consolidated financial statements and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Fund be unable to continue as a going concern.

As of December 31, 2017, the Fund had a working capital of \$2,549 (2016 – (\$31,418)) and an accumulated deficit of \$995,535 (2016 - \$1,029,502).

The Fund's viability depends on future profitability or the injection of new capital through loans or the issuance of trust units. Future profitability depends on the Fund's ability to manage costs and optimize the rental of its office space.

#### Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are stated at fair value.

#### Functional and Presentation Currency

The Fund's functional and presentation currency is the Canadian dollar.

#### Basis of Consolidation

These consolidated financial statements include the accounts of Sheridan Brothers Trust and its subsidiary, Sheridan Brothers LP (the "Partnership"). This subsidiary is fully consolidated from the date of acquisition, being the date on which the Fund obtained control, and will continue to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Fund, using consistent accounting policies. All intercompany account balances and transactions have been eliminated upon consolidation.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

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## 2. BASIS OF PREPARATION (Continued)

### Critical Accounting Judgments, Estimates, and Assumptions

Preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates, and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Information about significant areas of estimation uncertainty and judgment considered by management in preparing the consolidated financial statements are as follows:

#### *Going Concern*

Management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. However, material uncertainty exists that casts significant doubt upon the Company's ability to continue as a going concern.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented.

### Rental Income

Rental income is earned for subleasing a portion of the Partnership's office space. Revenue is recognized pursuant to the contractual leasing arrangements and is earned on the straight-line basis over the term of the lease normally on a monthly basis.

### Interest Income

Interest income is earned on its cash deposits as well as on securities lending activities. Interest is accrued on the time basis.

### Cash

Cash consists of deposits at Canadian chartered banks which are available on demand.

### Due from Broker

Amounts due from brokers represent cash deposited with securities brokers.

### Precious Metals

Precious metals consist of physical bars of platinum bullion and are measured at historical cost. Gains or losses are recognized in the consolidated statements of comprehensive income (loss) at the time that the precious metals are sold.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments Owned and Sold Short

(i) Classification:

Investments owned and sold short are classified upon initial recognition at fair value through profit or loss ("FVTPL").

(ii) Recognition, derecognition, and measurement:

Purchases and sales of investments are recognized on the trade date.

Investments owned and sold short are initially recognized at fair value. Transaction costs are expensed as incurred in the consolidated statements of comprehensive income (loss). Investments are derecognized when the rights to receive cash flows from the security have expired or the Company has transferred the financial asset.

Subsequent to initial recognition, all investments owned and sold short are measured at fair value. Gains and losses arising from changes in the fair value of Investments are recognized in the consolidated statement of comprehensive income (loss) in the period in which they occur.

(iii) Determination of fair values:

The determination of fair value requires judgment and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements. The Company is also required to disclose details of its financial instrument measured at fair value based on the transparency of inputs used in measuring the fair value.

1. Listed securities:

Securities including shares, options, and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices on the period-end date. If there were no trades on the period-end date, the Company uses the closing trade price on the last day that the security traded. These instruments are included in Level 1 in the fair value hierarchy.

(iv) Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(v) Securities lending:

Securities lent by the Company under a securities lending agreement are not derecognized as the Company retains all the risk and rewards of ownership. If the party to whom the security is lent has the right by contract to sell or repledge the security, the Company classifies that financial asset separately in its consolidated statement of financial position and identifies the asset as pledged. Where the transferee does not have the right to sell or repledge, disclosure of the securities provided is made in the notes to the consolidated financial statements.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial Instruments at Amortized Cost

Financial assets that are managed to collect contractual cash flows on specified dates are classified as subsequently measured at amortized cost using the effective interest method. These financial assets are recognized initially at fair value plus directly attributable transaction costs.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Fund has transferred substantially all of the risks and rewards of the asset. The Fund assesses at each reporting date whether there is any objective evidence that a financial asset is impaired, the impairment provision is based upon the expected loss.

Financial liabilities, other than those classified as FVTPL are classified as subsequently measured at amortized cost using the effective interest method. These financial liabilities are recognized initially at fair value net of directly attributable transaction costs.

The effective interest method is a method for calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

#### Provisions

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

#### Equipment

The Fund records equipment at historical cost and annually provides for amortization. Rates used to amortize the assets over their estimated useful life are as follows:

|                         |                       |
|-------------------------|-----------------------|
| Furniture and equipment | 20% declining balance |
|-------------------------|-----------------------|

#### Impairment of Long-Lived Assets

Long-lived assets are comprised of equipment and goodwill and are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash-generating unit ("CGU"), which is the lowest level for which there are separately identifiable cash flows. The recoverable amount of a CGU is determined to be the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount.

#### Loss Per Unit

Basic net loss per unit is calculated based on the weighted average number of trust units outstanding during the year. Diluted net loss per unit is determined by adjusting the weighted average number of trust units outstanding for the effects of all potentially dilutive units. Instruments which would be anti-dilutive are not included in the calculation of diluted loss per unit.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes

The Fund records income taxes using the liability method. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of assets and liabilities and their corresponding tax bases, using substantively enacted income tax rates for the periods in which the differences are expected to reverse. Deferred tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized. As a trust, the Fund has the discretion to distribute income to its unitholders which will be deductible against taxable income. Income tax obligations relating to distributions of the Fund are the obligations of the unitholders.

As an unincorporated entity, the Fund's partnership subsidiary is not a taxable entity under the *Income Tax Act (Canada)*, and as such the income earned in the Partnership is taxable in the hands of the Fund.

#### Change in Accounting Policies

Effective January 1, 2017, the Fund has adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

- (a) IAS 7, *Statement of Cash Flows* ("IAS 7") – In January 2016, the IASB issued amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The IAS 7 amendments are effective for annual periods beginning on or after January 1, 2017.
- (b) IAS 12, *Income Taxes* ("IAS 12") – In January 2016, the IASB issued amendments to IAS 12, which clarify guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at their fair value. The IAS 12 amendments are effective for annual periods beginning on or after January 1, 2017.

#### Recent Accounting Pronouncements

The following are IFRS changes that have been issued by the IASB, which may affect the Fund, but are not yet effective:

- (a) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued in May 2015, which replaced IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principles based five step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recent Accounting Pronouncements (Continued)

- (b) IFRS 16, *Leases* (“IFRS 16”) was issued in January 2016 to improve the accounting for leases, generally by eliminating a lessee’s classification of leases and introducing a single lessee accounting model. The most significant effect of the new standard will be the lessee’s recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position. Leases with durations of 12 months or less and leases for low value assets are both exempted. The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. However, the new standard will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. The presentation on the statement of loss and other comprehensive loss required by the new standard will result in most lease expenses being presented as amortization of lease assets and financing costs arising from lease liabilities rather than as being part of goods and services purchased. The standard is effective for annual periods beginning on or after January 1, 2019 and will supersede IAS 17 *Leases*.
- (c) IFRS 2, *Share-based Payment* (“IFRS 2”) - In June 2016, the IASB issued amendments to IFRS 2, which expands upon the guidance for recognizing a liability for cash-settlement of a share-based payment as well as transactions with a net settlement feature for withholding tax obligations. These amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.
- (d) IFRS 4, *Insurance Contracts* (“IFRS 4”) - In September 2016, the IASB issued amendments to IFRS 4, which permits insurers to apply the overlay approach to designated financial assets and to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss. These amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

The Fund has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

### 4. INVESTMENTS OWNED AND SOLD SHORT, AT FAIR VALUE

#### Investments Owned

The components of investments owned are as follows:

|          | 2017       |            | 2016 |            |
|----------|------------|------------|------|------------|
|          | Cost       | Fair Value | Cost | Fair Value |
| Equities | \$ 126,035 | \$ 28,897  | \$ - | \$ -       |

#### Securities lending

The Company has entered into a securities lending agreement whereby securities in the portfolio are lent to the broker. The Company receives cash collateral in order to reduce the credit risk of these arrangements, which is held in a segregated account. The level of collateral held is monitored regularly with further collateral obtained where this is considered necessary to manage the Company’s risk exposure. The Company obtains legal ownership of the collateral received and can utilize it outright in the event of default.

# SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements  
 Years Ended December 31, 2017 and 2016  
 (Presented in Canadian Dollars)

## 4. INVESTMENTS OWNED AND SOLD SHORT, AT FAIR VALUE (Continued)

### Investments Owned (Continued)

The security lending positions are as follows as at December 31:

|                                      | 2017      | 2016 |
|--------------------------------------|-----------|------|
| Fair value of investments lent       | \$ 28,897 | \$ - |
| Collateral held for investments lent | 31,133    | -    |

### Investments Sold Short

The components of investments sold short are as follows:

|          | 2017       |            | 2016     |            |
|----------|------------|------------|----------|------------|
|          | Proceeds   | Fair Value | Proceeds | Fair Value |
| Equities | \$ 655,152 | \$ 671,366 | \$ -     | \$ -       |
| Options  | 121        | 170        | -        | -          |
|          | \$ 655,273 | \$ 671,536 | \$ -     | \$ -       |

### Fair Value Hierarchy

All long and short securities are categorized into Level 1 of the fair value hierarchy and are measured based on quoted market prices. There were no transfers between levels of the fair value hierarchy during the years presented.

## 5. EQUIPMENT

The following is a continuity of equipment for the year ended December 31, 2016:

| Cost                          | 2016       |
|-------------------------------|------------|
| Opening balance – January 1   | \$ 135,612 |
| Additions                     | -          |
| Closing balance - December 31 | \$ 135,612 |

  

| Accumulated Amortization      | 2016       |
|-------------------------------|------------|
| Opening balance – January 1   | \$ 97,862  |
| Amortization                  | 7,550      |
| Impairment                    | 30,200     |
| Closing balance - December 31 | \$ 135,612 |

  

| Carrying Value        | 2016 |
|-----------------------|------|
| Balance - December 31 | \$ - |

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 6. LOANS PAYABLE

Loans payable are comprised of the following:

|                                 | 2017         | 2016      |
|---------------------------------|--------------|-----------|
| Norstar Financial Services Inc. | \$ 2,525,000 | \$ -      |
| Tough-Oakes Exploration Ltd.    | -            | 10,000    |
|                                 | \$ 2,525,000 | \$ 10,000 |

Each of the above corporations are controlled by the President and Trustee of the Fund. These loans are unsecured, non-interest bearing, and are due on demand. These loans were advanced to the Fund for their investing and general working capital purposes.

### 7. UNITHOLDERS' EQUITY

#### (a) Authorized

The Fund's Deed of Trust provides that an unlimited number of Trust Units and Special Voting Units may be issued. Each Trust Unit is transferable and represents an equal, undivided beneficial interest in any distribution of the Fund, and in the net assets of the Fund in the event of termination or winding up of the Fund. All Trust Units rank equally with all of the other Trust Units. Each Special Voting Unit entitles the holder to a number of votes at all meetings of Voting Unitholders or in respect of any resolution of Voting Unitholders equal to the number of Trust Units into which Exchangeable Securities to which such Special Voting Units relate are exchangeable. Except for the right to attend and vote at meetings of Voting Unitholders or in respect of written resolutions of Voting Unitholders, Special Voting Units do not confer upon the holder thereof any other rights. Holders of the Special Voting Units are not entitled to any interest or share in the Trust or any distributions of any nature whatsoever from the Trust and will not have any beneficial interest in any Trust Assets on termination or winding up of the Trust. The Fund does not have any issued and outstanding Special Voting Units.

#### (c) Issued and Outstanding

|  | Number of Trust Units | Trust Capital |
|--|-----------------------|---------------|
| Balance as of December 31, 2017 and 2016 | 4,720,000             | \$ 980,000    |

#### (d) Loss Per Trust Unit

| Numerator:   | 2017      | 2016       |
|--|-----------|------------|
| Net income   | \$ 33,967 | \$ 109,684 |
| Denominator:                                       | 2017      | 2016       |
| Weighted average number of trust units outstanding | 4,720,000 | 4,720,000  |
| Income per unit:                                   | 2017      | 2016       |
| Basic and diluted                                  | \$ 0.01   | \$ 0.02    |

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 8. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations.

- (a) The Fund subleases its office space to various entities controlled by a trustee of the Fund. Rent received from these entities totaled \$192,000 for the year ended December 31, 2017 (2016 - \$217,000). Each of the leases is on a month-to-month basis.
- (b) Key management personnel are defined as those individuals having authority and responsibility for planning, directing, and controlling the activities of the Fund. The Fund considers its President and CFO to be key management personnel. Compensation of key management personnel for the years ended December 31, 2017 totalled \$14,080 (2016 - \$10,000) in consulting fees and \$14,371 in salaries and benefits (2016 - \$25,938).
- (c) The Fund has loans payable to related parties as described in note 6.

### 9. GENERAL AND ADMINISTRATIVE EXPENSES

The following are components of general and administrative expenses categorized by nature:

|                                    | 2017       | 2016       |
|------------------------------------|------------|------------|
| Rent and occupancy costs           | \$ 53,341  | \$ 101,326 |
| Office and general                 | 21,693     | 24,638     |
| Transaction costs                  | 15,588     | -          |
| Professional fees                  | 14,940     | 14,109     |
| Salaries and benefits (note 8 (b)) | 14,371     | 25,938     |
| Consulting fees (note 8 (b))       | 14,080     | 10,000     |
| Advertising and promotion          | 6,615      | 3,447      |
| Bank charges                       | 6,031      | 5,082      |
| Telecommunications                 | 4,050      | 8,961      |
| Quoting and information fees       | 3,094      | 18,133     |
|                                    | \$ 153,803 | \$ 211,634 |

### 10. INCOME TAXES

#### Income Tax Provision

Reconciliation of the combined federal and provincial statutory income tax rate to the effective income tax rate is as follows:

|   | 2017      | 2016       |
|---|-----------|------------|
| Net income before taxes                     | \$ 33,967 | \$ 109,684 |
| Statutory tax rate                          | 53.53%    | 53.53%     |
| Expected tax at statutory rates             | 18,183    | 58,714     |
| Non-deductible expenses                     | 1,760     | 899        |
| Non-taxable portion of gain                 | -         | (37,973)   |
| Change in deferred tax asset not recognized | (19,943)  | (21,640)   |
| Income tax provision                        | \$ -      | \$ -       |

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 10. INCOME TAXES (Continued)

#### Income Tax Provision (Continued)

The components of income tax provision are as follows:

|  | 2017     | 2016     |
|--|----------|----------|
| Current income taxes                         | \$ -     | \$ -     |
| Deferred income taxes                        |          |          |
| Origin and reversal of temporary differences | 19,943   | 21,640   |
| Unrecognized temporary differences           | (19,943) | (21,640) |
|  | -        | -        |
| Income tax provision                         | \$ -     | \$ -     |

#### Deferred Income Taxes

The components of deferred income taxes have been determined at the combined federal and provincial statutory rate of 53.53% (2016 - 53.53%) and are as follows:

|                    | 2017       | 2016       |
|--------------------|------------|------------|
| Non-capital losses | \$ 446,047 | \$ 465,990 |

The Fund has non-capital losses of approximately \$833,267, which are available to be carried forward and used against future taxable income. These losses expire as follows:

|      |            |
|------|------------|
| 2033 | \$ 480,884 |
| 2034 | 322,771    |
| 2035 | 29,612     |
|      | \$ 833,267 |

### 11. COMMITMENTS

The Fund is committed to future payment on leases for premises as follows:

|                   |           |
|-------------------|-----------|
| Less than 1 year  | \$ 40,339 |
| From 1 to 3 years | -         |
|                   | \$ 40,339 |

### 12. SEGMENTED INFORMATION

The Fund has a single reportable geographical segment in Canada. All of the Fund's assets are located in Canada.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 13. MANAGEMENT OF CAPITAL

The Fund includes the following in its managed capital:

|                     | 2017         | 2016        |
|---------------------|--------------|-------------|
| Loans payable       | \$ 2,525,000 | \$ 10,000   |
| Unitholders' equity | 2,549        | (31,418)    |
|                     | \$ 2,527,549 | \$ (21,418) |

The Fund's objective when managing capital is to ensure that it maintains the level of capital necessary to continue operating. The Fund manages its capital structure and makes adjustments to it, based on the funds available and its anticipated future requirements.

The Board of Trustee does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of a business. The Company is not subject to externally imposed capital requirements.

### 14. FINANCIAL INSTRUMENTS

#### Credit Risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfil its payment obligations. The Fund's maximum exposure to credit risk is presented below. All receivables are current and due within 30 days. The Company holds collateral under its security lending arrangements, but does not have collateral towards any of the other receivable balances and considers credit risk to be low.

|                     | 2017         | 2016     |
|---------------------|--------------|----------|
| Cash                | \$ 34,299    | \$ 9,070 |
| Due from broker     | 3,154,540    | -        |
| Accounts receivable | 24,960       | -        |
|                     | \$ 3,213,799 | \$ 9,070 |

The allowance for doubtful accounts and bad debt expense are \$Nil for the years ended December 31, 2017 and 2016. There have been no changes to the Fund's method for managing credit risk since December 31, 2016.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 14. FINANCIAL INSTRUMENTS (Continued)

#### Liquidity Risk

Liquidity risk is the risk that the Fund will have sufficient cash resources to meet its financial obligations as they come due. The following is a maturity analysis of financial liabilities based on their contractual maturities:

|                       | Payments due by period |                |                | Total        |
|-----------------------|------------------------|----------------|----------------|--------------|
|                       | Less than<br>1 year    | 1 - 3<br>years | 4 - 5<br>years |              |
| December 31, 2017     |                        |                |                |              |
| Securities sold short | \$ 671,536             | \$ -           | \$ -           | \$ 671,536   |
| Accounts payable      | 51,067                 | -              | -              | 51,067       |
| Loans payable         | 2,525,000              | -              | -              | 2,525,000    |
|                       | \$ 3,247,603           | \$ -           | \$ -           | \$ 3,247,603 |
| December 31, 2016     |                        |                |                |              |
| Accounts payable      | \$ 30,896              | \$ -           | \$ -           | \$ 30,896    |
| Loans payable         | 10,000                 | -              | -              | 10,000       |
| Unearned revenue      | 6,000                  | -              | -              | 6,000        |
|                       | \$ 46,896              | \$ -           | \$ -           | \$ 46,896    |

The following is a liquidity analysis of the Company's assets:

|                             | Liquidity by period |                     |            | Total        |
|-----------------------------|---------------------|---------------------|------------|--------------|
|                             | Less than<br>1 year | More than<br>1 year | Non-liquid |              |
| December 31, 2017           |                     |                     |            |              |
| Cash                        | \$ 34,299           | \$ -                | \$ -       | \$ 34,299    |
| Investments owned           | 28,897              | -                   | -          | 28,897       |
| Due from broker             | 3,154,540           | -                   | -          | 3,154,540    |
| Accounts receivable         | 24,960              | -                   | -          | 24,960       |
| Precious metals             | 1,171               | -                   | -          | 1,171        |
| Prepaid expenses and sundry | 6,285               | -                   | -          | 6,285        |
|                             | \$ 3,250,152        | \$ -                | \$ -       | \$ 3,250,152 |
| December 31, 2016           |                     |                     |            |              |
| Cash                        | \$ 9,070            | \$ -                | \$ -       | \$ 9,070     |
| Prepaid expenses            | 6,408               | -                   | -          | 6,408        |
|                             | \$ 15,478           | \$ -                | \$ -       | \$ 15,478    |

The loans payable are all due from related parties controlled by the President of the Fund. The fund intends to pay its liabilities through the ongoing collection of rents. There have been no changes to the Fund's method for managing liquidity risk since December 31, 2016.

# SHERIDAN BROTHERS TRUST

## Notes to the Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Presented in Canadian Dollars)

### 14. FINANCIAL INSTRUMENTS (Continued)

#### Market Risk

Market risk is comprised of equity price risk, foreign currency risk, and interest rate risk. The Company's exposure to these risks is described below.

##### *Equity Price Risk*

Equity price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in stock market prices. The value of the Company's investments owned and sold short are affected by changes in market prices. Management reduces its exposure to market prices by holding investments for short periods of time. There have been no changes in the Company's risk management strategies for the year ended December 31, 2017.

A sensitivity analysis of the impact on the net income (loss) of the Company for changes in the market prices of investments owned and sold short is presented below:

|                     | 2017        | 2016 |
|---------------------|-------------|------|
| Market rises by 10% | \$ (64,264) | \$ - |
| Market rises by 5%  | (32,132)    | -    |
| No change           | -           | -    |
| Market falls by 5%  | 21,558      | -    |
| Market falls by 10% | 36,903      | -    |

The above sensitivity analysis does not give effect to the timing of changes in fair value, or the effect of management actions that may be taken to mitigate unfavorable market movements. The effect of timing is relevant to the above analysis, as the Company holds several positions in options which have short term expiry dates.

##### *Foreign Currency Risk*

Foreign currency risk is the risk that fluctuations in the rates of exchange on foreign currency would impact the Company's future cash flows. The Company is exposed to foreign exchange fluctuations in the following instruments denominated in United States ("US") dollars. There have been no changes in the Company's risk management strategies for the year ended December 31, 2016.

|                        | 2017        | 2016 |
|------------------------|-------------|------|
| Due from broker        | \$ 617,843  | \$ - |
| Investments owned      | 28,897      | -    |
| Investments sold short | (671,536)   | -    |
|                        | \$ (24,796) | \$ - |

A sensitivity analysis of the impact on the Company's net income (loss) for changes in the exchange rate on US dollars is presented below:

|                 | 2017     | 2016 |
|-----------------|----------|------|
| Increases by 4% | \$ (992) | \$ - |
| Increases by 2% | (496)    | -    |
| No change       | -        | -    |
| Decreases by 2% | 496      | -    |
| Decreases by 4% | 992      | -    |