

SHERIDAN BROTHERS TRUST
Consolidated Financial Statements
December 31, 2018 and 2017
(Presented in Canadian Dollars)

SHERIDAN BROTHERS TRUST

December 31, 2018 and 2017

Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 21

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of
Sheridan Brothers Trust

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sheridan Brothers Trust (the "Fund"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis of Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Fund had negative working capital of \$87,829 and an accumulated deficit of \$1,085,913 as at December 31, 2018. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Fund's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis;

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditor's report is Steven Olsthoorn.

April 23, 2019
Toronto, Ontario

DNTW Toronto LLP
Chartered Professional Accountants
Licensed Public Accountants

SHERIDAN BROTHERS TRUST

Consolidated Statements of Financial Position

As At December 31, 2018 and 2017

(Presented in Canadian Dollars)

	Note	2018	2017
ASSETS			
Current Assets			
Cash		\$ 6,866	\$ 34,299
Due from broker		1,768,849	3,154,540
Investments owned, at fair value	4	1,363,464	28,897
Accounts receivable		-	24,960
Loan receivable	7 (d)	15,000	-
Precious metals		1,171	1,171
Prepaid expenses and sundry		12,524	6,285
Total Assets		\$ 3,167,874	\$ 3,250,152
LIABILITIES AND EQUITY			
Current Liabilities			
Investments sold short, at fair value	4	\$ 680,102	\$ 671,536
Accounts payable and accrued liabilities		60,601	51,067
Loan payable	5	2,515,000	2,525,000
Total Current Liabilities		3,255,703	3,247,603
Equity			
Unitholders' equity	6	(87,829)	2,549
Total Liabilities and Equity		\$ 3,167,874	\$ 3,250,152

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, 2018 and 2017
(Presented in Canadian Dollars)

	Note	2018	2017
REVENUE			
Rental	7 (a)	\$ 138,000	\$ 192,000
Net realized gain on disposal of investments		52,029	105,149
Net change in unrealized losses on investments		(77,342)	(113,401)
Interest and other		22	4,022
Total Revenue		112,709	187,770
EXPENSES			
General and administrative	8	203,087	153,803
Total Expenses		203,087	153,803
Net Income (Loss) and Comprehensive Income (Loss)		\$ (90,378)	\$ 33,967
Income (Loss) per Unit – Basic and Diluted		\$ (0.02)	\$ 0.01
Weighted Average Number of Units Outstanding – Basic and Diluted		4,720,000	4,720,000

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, 2018 and 2017
(Presented in Canadian Dollars)

	Trust Capital	Contributed Surplus	Deficit	Total Unitholders' Equity
Balance at December 31, 2016	\$ 980,000	\$ 18,084	\$ (1,029,502)	\$ (31,418)
Net income	-	-	33,967	33,967
Balance at December 31, 2017	\$ 980,000	\$ 18,084	\$ (995,535)	\$ 2,549
Net loss	-	-	(90,378)	(90,378)
Balance at December 31, 2018	\$ 980,000	\$ 18,084	\$ (1,085,913)	\$ (87,829)

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

SHERIDAN BROTHERS TRUST

Consolidated Statements of Cash Flows
 Years Ended December 31, 2018 and 2017
 (Presented in Canadian Dollars)

	2018	2017
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	\$ (90,378)	\$ 33,967
Items not requiring an outlay of cash:		
Net realized gain on disposal of investments	(52,029)	(105,149)
Net change in unrealized losses on investments	77,342	113,401
Changes in non-cash working capital:		
Accounts receivable	24,960	(24,960)
Prepaid expenses and sundry	(6,239)	123
Accounts payable and accrued liabilities	9,534	20,171
Unearned revenue	-	(6,000)
	(36,810)	31,553
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Loans received	-	3,000,000
Loans made and repaid	(25,000)	(485,000)
	(25,000)	2,515,000
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Increase in due from broker	1,385,691	(3,154,540)
Proceeds on sale of investments	47,442,437	40,031,369
Cost of purchasing investments	(48,793,751)	(39,396,982)
Cost of purchasing precious metals	-	(1,171)
	34,377	(2,521,324)
Net Increase (Decrease) in Cash	(27,433)	25,229
Cash, Beginning of Year	34,299	9,070
Cash, End of Year	\$ 6,866	\$ 34,299
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -
Interest received	22	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, 2018 and 2017

(Presented in Canadian Dollars)

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 15 Polson Street in Toronto, Ontario M5A 1A4.

The Board approved these consolidated financial statements for issue on April 23, 2019.

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, 2018, the Fund had negative working capital of \$87,829 (2017 – positive working capital of \$2,549) and an accumulated deficit of \$1,085,913 (2017 - \$995,535).

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, and realize profits on the sale of its investments.

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 wholly-owned 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, 2018 and 2017

(Presented in Canadian Dollars)

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 year. 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 Fund'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, 2018 and 2017

(Presented in Canadian Dollars)

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 Fund 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 year 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 Fund's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements. The Fund 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 and contracts:

Securities including shares, options, warrants, and futures contracts 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 Fund uses the closing trade price on the last day that the security or contract 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 Fund under a securities lending agreement are not derecognized as the Fund 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 Fund 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, 2018 and 2017

(Presented in Canadian Dollars)

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.

Income (Loss) Per Unit

Basic net income (loss) per unit is calculated based on the weighted average number of trust units outstanding during the year. Diluted net income (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.

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.

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Policies

Effective January 1, 2018, 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) 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.
- (b) 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.
- (c) 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.

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

- (a) 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*.
- (b) In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

IFRS 3, *Business Combinations* ("IFRS 3") and IFRS 11, *Joint Arrangements* ("IFRS 11") – The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12, *Income Taxes* – The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23, *Borrowing Costs* – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Equities	\$ 1,372,473	\$ 1,363,464	\$ 126,035	\$ 28,897

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Presented in Canadian Dollars)

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

Investments Owned (Continued)

Securities lending

The Fund has entered into a securities lending agreement whereby securities in the portfolio are lent to the broker. The Fund 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 Fund's risk exposure. The Fund obtains legal ownership of the collateral received and can utilize it outright in the event of default.

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

	2018	2017
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:

	2018		2017	
	Proceeds	Fair Value	Proceeds	Fair Value
Equities	\$ 496,390	\$ 677,092	\$ 655,152	\$ 671,366
Options	1,978	3,010	121	170
	\$ 498,368	\$ 680,102	\$ 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. LOAN PAYABLE

Loan payable is comprised of the following:

	2018	2017
Norstar Financial Services Inc.	\$ 2,515,000	\$ 2,525,000

The above corporation is controlled by the President and Trustee of the Fund. The loan is unsecured, non-interest bearing, and is due on demand. The loan was advanced to the Fund for its investing and general working capital purposes.

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

6. 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.

(b) Issued and Outstanding

	Number of Trust Units	Trust Capital
Balance as of December 31, 2018 and 2017	4,720,000	\$ 980,000

(a) Income (Loss) Per Trust Unit

Numerator:	2018	2017
Net income (loss)	\$ (90,378)	\$ 33,967
Denominator:	2018	2017
Weighted average number of trust units outstanding – basic and diluted	4,720,000	4,720,000
Income (loss) per unit:	2018	2017
Basic and diluted	\$ (0.02)	\$ 0.01

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Presented in Canadian Dollars)

7. 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 \$138,000 for the year ended December 31, 2018 (2017 - \$192,000). 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, 2018 totalled \$12,000 (2017 - \$14,080) in consulting fees and \$14,603 in salaries and benefits (2017 - \$14,371).
- (c) The Fund has a loan payable to a related party as described in note 5.
- (d) The Fund has a loan receivable due from the President of the Fund in the amount of \$15,000. The loan is unsecured, non-interest bearing, and is due on demand. The loan was repaid in full on April 15, 2019.

8. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2018	2017
Rent and occupancy costs	\$ 89,800	\$ 53,341
Office and general	21,524	21,693
Transaction costs	20,929	15,588
Professional fees	14,750	14,940
Salaries and benefits (note 7 (b))	14,603	14,371
Consulting fees (note 7 (b))	12,000	14,080
Advertising and promotion	11,875	6,615
Bank charges	7,877	6,031
Telecommunications	2,933	4,050
Quoting and information fees	6,796	3,094
	\$ 203,087	\$ 153,803

9. 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:

	2018	2017
Net income (loss) before taxes	\$ (90,378)	\$ 33,967
Statutory tax rate	53.53%	53.53%
Expected tax (recovery) at statutory rates	(48,379)	18,183
Non-deductible expenses	2,630	1,760
Change in deferred tax asset not recognized	45,749	(19,943)
Income tax provision	\$ -	\$ -

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

9. INCOME TAXES (Continued)

Income Tax Provision (Continued)

The components of income tax provision are as follows:

	2018	2017
Current income taxes	\$ -	\$ -
Deferred income taxes		
Origin and reversal of temporary differences	(45,749)	19,943
Unrecognized temporary differences	45,749	(19,943)
	-	-
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% (2017 - 53.53%) and are as follows:

	2018	2017
Non-capital losses	\$ 491,796	\$ 446,047

The Fund has non-capital losses of approximately \$918,732, 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
2038	85,465
	\$ 918,732

10. COMMITMENTS

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

Less than 1 year	\$ 50,772
From 1 to 3 years	58,724
	\$ 109,496

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

11. SEGMENTED INFORMATION

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

12. MANAGEMENT OF CAPITAL

The Fund includes the following in its managed capital:

	2018	2017
Loans payable	\$ 2,515,000	\$ 2,525,000
Unitholders' equity	(87,829)	2,549
	\$ 2,427,171	\$ 2,527,549

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

13. 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. The Fund 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.

	2018	2017
Cash	\$ 6,866	\$ 34,299
Due from broker	1,768,849	3,154,540
Accounts receivable	-	24,960
Loan receivable	15,000	-
	\$ 1,790,715	\$ 3,213,799

The allowance for doubtful accounts and bad debt expense are \$Nil for the years ended December 31, 2018 and 2017. There have been no changes to the Fund's method for managing credit risk since December 31, 2017.

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk

Liquidity risk is the risk that the Fund will not 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 1 year	1 - 3 years	4 - 5 years	
December 31, 2018				
Securities sold short	\$ 680,102	\$ -	\$ -	\$ 680,102
Accounts payable	60,601	-	-	60,601
Loans payable	2,515,000	-	-	2,515,000
	\$ 3,255,703	\$ -	\$ -	\$ 3,255,703
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

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

	Liquidity by period			Total
	Less than 1 year	More than 1 year	Non-liquid	
December 31, 2018				
Cash	\$ 6,866	\$ -	\$ -	\$ 6,866
Investments owned	1,363,464	-	-	1,363,464
Due from broker	1,768,849	-	-	1,768,849
Loan receivable	15,000	-	-	15,000
Precious metals	1,171	-	-	1,171
Prepaid expenses and sundry	12,524	-	-	12,524
	\$ 3,167,874	\$ -	\$ -	\$ 3,167,874
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

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, 2017.

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (Continued)

Market Risk

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

Price Risk

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

	2018	2017
Investments owned	1,363,464	28,897
Investments sold short	(680,102)	(671,536)

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

	2018	2017
Market rises by 10%	\$ (9,487)	\$ (64,264)
Market rises by 5%	(1,197)	(32,132)
No change	-	-
Market falls by 5%	(37,253)	21,558
Market falls by 10%	(122,124)	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 Fund 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 Fund's future cash flows. The Fund is exposed to foreign exchange fluctuations in the following instruments denominated in United States ("US") dollars. There have been no changes in the Fund's risk management strategies for the year ended December 31, 2017.

	2018	2017
Due from broker	\$ (778,455)	\$ 617,843
Investments owned	1,363,464	28,897
Investments sold short	(680,102)	(671,536)
	\$ (95,093)	\$ (24,796)

SHERIDAN BROTHERS TRUST

Notes to the Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Presented in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk (Continued)

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

	2018	2017
Increases by 4%	\$ (23,398)	\$ (992)
Increases by 2%	(11,699)	(496)
No change	-	-
Decreases by 2%	11,699	496
Decreases by 4%	23,398	992

14. SUBSEQUENT EVENT

Subsequent to December 31, 2018, the Fund issued 12,000 units at a price of \$0.01 per unit, for gross proceeds of \$120. All of these units were subscribed for by trustees, officers, and employees of the Fund, and their family members.