Sprott Resource Corp. 2016 Second Quarter Report

Management's Discussion and Analysis of Financial Position and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Sprott Resource Corp. (herein referred to as "SRC" or the "Company"). This document is prepared as at August 10, 2016 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six-months ended June 30, 2016, including the notes thereon (the "Financial Statements"). The Company prepares its Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars unless otherwise indicated. Further information, including the Company's Annual Information Form ("AIF") for the year-ended December 31, 2015, may be accessed at www.sedar.com, and may also be found on the Company's website at www.sprottresource.com.

Forward-looking statements and information are used throughout this document. See the Forward-Looking Information section at the end of this document highlighting the caution that a reader should place on all forward-looking information.

See the Abbreviations and Defined Terms sections at the end of this document for abbreviations and defined terms used throughout.

The Company's head office is based in Toronto, Ontario, Canada. Common shares are listed on the Toronto Stock Exchange ("TSX") and trade under the symbol "SCP".

Sprott Resource Partnership ("SRP") is a partnership formed pursuant to a partnership agreement (the "Partnership Agreement") between SRC and Sprott Resource Consulting Limited Partnership (the "Managing Partner"), an affiliate of Sprott Consulting Limited Partnership ("SCLP"). The investment portfolio of SRC is held by SRP. The only assets not held in SRP are those assets necessary to administer the (i) public company and (ii) equity incentive plan of the Company (see Note 5e of the Financial Statements). See page "v" of the AIF *Company Overview* for additional information.

BUSINESS OBJECTIVES AND STRATEGY

Business Objectives

SRC is a publically-listed private equity firm focused on the natural resource sector. The Company invests through SRP and currently has investments in energy exploration, energy production and services, mining and agriculture. SRC creates value for its investors by applying a disciplined investment process to deploy capital while managing risk within highly cyclical sectors. SRC is a business builder that is committed to being value-added partners with proven management teams. SRC supports its investments through active management and the provision of long-term capital, as well as strategic, financial and governance oversight. Founded in 2007, the Company is based in Toronto, Canada and is managed by an experienced team of private equity specialists, supported by the technical and investment resources of Sprott Inc. and its subsidiaries and affiliates (collectively, "SII"). Despite the current challenging global energy and mining markets, management of SRC continues to be dedicated to generating long-term superior returns on capital, risk management and wealth preservation.

For 2016, the Company continued its 2015 key objectives:

i. Improve liquidity through appropriate investment monetizations;
ii. Secure new capital to develop scale and optimize strategy execution;
iii. Generate value in current portfolio companies by positioning them for their respective commodity sector recoveries; and,
iv. Expand collaboration with SII.

Business Objectives Mid-Year Update

As of the date hereof, below is the Company's update of the progress made in each of its key business objectives for 2016.

i. On June 29, 2016, Long Run Exploration Ltd. ("Long Run") announced the closing of the plan of arrangement involving Long Run, Calgary Sinoenergy Investment Corp. and the Long Run securityholders (the "Arrangement") resulting in cash proceeds of $12.0 million which was received by the Company subsequent to June 30, 2016. In August 2016, the Company also monetized a small passive position it held in Stonegate Agricom Ltd. ("Stonegate") for gross proceeds of approximately $1.2 million.

ii. SRC and SII continue to collaborate together on deal sourcing, due diligence expertise and certain other resource sharing. SII continues to support SRC through its subsidiary, Sprott Resource Lending Corp. ("SRLC") and SRLC has agreed to waive the requirement for the Company to repay the Facility (as defined below) with the proceeds received from the disposition of Long Run.

Strategy

SRC seeks to accomplish its business objectives by:

Short-term

i. Advancing divestment opportunities of legacy and passive investments to strengthen financial flexibility;
ii. Narrowing the discount to NAV;

Long-term

iii. Exploring capital raising alternatives;
iv. Growing the value of the investment portfolio;
v. Continuing to partner with management and directors with a proven track record of success; and,
vi. Investing in new businesses.

i. Advance divestment opportunities of legacy and passive investments to strengthen financial flexibility

The Company's investment portfolio may periodically include legacy and/or passive investments. In these instances, the Company actively pursues exit strategies for both legacy and/or passive investments to generate liquidity. The majority of the Company's investments are large ownership positions in private and public companies that can be difficult to exit for a variety of reasons, including liquidity constraints, existing market conditions, investor sentiment and regulatory hurdles. For these and other reasons, when an investment is considered to have "matured" or deemed to be a legacy investment, the time to exit is not necessarily predictable and the expected proceeds from such an exit may be substantially different from what was previously thought.

Typically, passive investments provide a more timely opportunity to strengthen financial flexibility. These investments tend to involve lower ownership thresholds, and provide a better liquidity profile than the remainder of the investment portfolio. However, in some cases a passive investment may also share characteristics of a legacy investment. In the case of Union Agriculture Group ("Union Agriculture"), this investment is both a legacy and passive investment. At one time, Union Agriculture was neither. The Company continues to actively explore appropriate opportunities to exit this investment. This was initially supported by Union Agriculture's October 16, 2015 filing of a non-offering preliminary prospectus ("Preliminary Prospectus") with the Ontario Securities Commission ("OSC"). Union Agriculture has not yet filed a non-offering final prospectus, the receipt of which by the OSC would result in Union Agriculture becoming a reporting issuer under the Securities Act (Ontario). SRC did not correctly anticipate the length of time for this process and has limited visibility as to the probability of its success. The Company remains hopeful that the OSC will allow the Preliminary Prospectus to be finalized, the result of which could provide liquidity to SRC. The monetizations of both mature and passive investments will provide additional financial flexibility to the Company.

On June 29, 2016, the Company sold its legacy investment in Long Run for gross proceeds of $12.0 million. The cash was received subsequent to quarter end and has not been used to pay down the Facility (as defined below) as the Company is evaluating several investment opportunities. In August 2016, the Company also disposed of its legacy investment in Stonegate for gross proceeds of $1.2 million all of which was used to repay the Company's Facility (as defined below).

The Company's financial strength is in its net assets and liquid investments. Having a strong capital base is an important element in successfully negotiating investment terms, moving quickly on opportunities and providing financial resiliency during periods of volatility.

The Company's selected financial position as at the date hereof is as follows:

- directly holds cash and cash equivalents of $12.3 million and,
- holds publicly listed securities of $46.9 million.

On September 29, 2015, the Company as the borrower and SRP as the guarantor entered into an amended and restated credit facility ("Facility") with SRLC, a subsidiary of Sprott Inc., the parent company of the Managing Partner, which was subsequently amended by an amending agreement dated May 10, 2016. The Facility is an $18.0 million term facility that matures on November 11, 2016 ("Maturity Date") and is available for general corporate purposes. Upon signing the amending agreement SRC paid a commitment fee equal to 0.5% of the Facility. Interest accrues daily at 8% per annum, compounded monthly. All obligations of the Company under the Facility are unconditionally guaranteed by SRP.

The Facility provides that the Company will (i) apply all proceeds of the disposition of any shares, equity interests or other securities owned (directly or indirectly) by the Company in prepayment of the Facility (including any accrued and unpaid interest and any other amounts payable thereunder), (ii) not to enter into any reorganization, consolidation, amalgamation, arrangement, winding-up, merger, disposal of all or substantially all of its assets or other similar transaction without the prior written consent of SRLC; and (iii) not to declare, make or pay any dividends. The Facility provides that it shall be an event of default if the market value of the publicly traded securities owned by the Company is less than three times the total amount drawn under the Facility (the "Market Value Covenant"). On January 29, 2016, SRLC agreed to waive the Market Value Covenant until the Maturity Date as a result of continued public markets volatility. In addition, on June 28, 2016 SRLC agreed to waive the requirement to repay all the proceeds received on the disposition of Long Run. The Facility provides the Company with the necessary financial flexibility to support existing investments and facilitate corporate operations, which may include new investments. As of the date hereof, the balance on the Facility is $16.6 million.

The Company's business model has been to generate gains on the disposition of investments. The sale of mature companies and the resulting gains are inherently irregular. Over the long-term, management believes that generating profits will provide the liquidity to sustain its investment operations, make new investments and support existing investments.

ii. Narrow the discount to NAV

As with any stock, the price of SRC's shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Although the price of SRC's shares is correlated to its NAV, whether investors will realize gains or losses upon the sale of SRC's shares will not necessarily depend solely on the NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of SRC's shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond the Company's control, one cannot predict whether the shares will trade at, below or above SRC's NAV. As of the date hereof, SRC's shares are trading at a discount to NAV.

As at June 30, 2016, the discount to NAV was 38.8%, an improvement from the 58.6% discount to NAV at December 31, 2015. Management believes that the current discount to NAV is not permanent and that the Company's stock price will again approach its intrinsic value as the energy and mining sectors begin to recover, the Company's liquidity profile improves and private company valuations are further supported by external methods of price discovery.

Management is committed to growing a long-term, supportive shareholder base and believes this commitment will, in time, narrow the discount to NAV. Management continues with the following measures to address SRC's discount to NAV:

a. Simplified and transparent financial and portfolio investment reporting;

b. Regular quarterly investor update calls;

c. Engaging independent third-party expertise to fair value private company holdings (see the *Private Company Valuations* section elsewhere in this MD&A) relieving any perceived bias of the Company's management;

d. Continue the long-term equity incentive plan to increase management's alignment with shareholders of the Company. A portion of compensation historically paid in cash is instead paid in the Company's stock through purchases in the open market;

e. Maintain broad external research coverage of SRC (currently at five research analysts);

f. Further the price discovery process of its private investments;

g. Invest counter-cyclically in out-of-favor commodity sectors; and,

h. Reposition the portfolio to improve liquidity.

iii. Explore capital raising alternatives

The Company continues to explore raising capital. An enhanced capital position will provide the Company with a larger set of investment alternatives to execute on its stated investment strategy.

iv. Grow the value of the investment portfolio

SRC seeks to grow the value of its existing investments by providing active oversight, strategic, financial and operational guidance. It provides the support typical of a cornerstone investor. In addition, it provides direction to its investees' management in the areas of capital markets access, strategic development, long-term growth planning, mentoring, capital structure guidance and systems and process development (see the *Key Investments* section of this MD&A).

v. Continue to partner with management and directors with a proven track record of success

The Company believes that partnering with proven management teams and directors, with expertise in their respective fields and a track record of generating returns for shareholders, will significantly increase an investment's chance of success. In addition, the Company expects management at the investee companies to take substantial equity stakes in their companies. Having management invested in the company creates alignment of interests between key stakeholders. This ability to partner with proven management teams is believed to be a competitive advantage.

The Company's commitment to its partnerships with its investee companies extends to other aspects of the business such as providing strategic guidance to the investee companies through board representation.

vi. Invest in new businesses

The Company continues to evaluate and assess potential investment opportunities weighing the liquidity and return prospects of its current portfolio against the opportunity set of investment returns presented by (i) buying back the Company's stock and (ii) these new investments. However, the Company prioritizes its current liquidity profile and ability to raise capital instead of investing in new business. Commodity markets are highly cyclical in nature. SRC seeks to invest capital when markets are trading at or near cyclical lows or when management believes commodities are inexpensive compared with other industry metrics to reduce the investment risk and help separate the well-run companies from their competitors. SRC's investment approach is driven by an assessment of global economic trends as they relate to various natural resource sectors. Individual commodity markets are investigated to assess short and long-term supply/demand characteristics to determine where and when to allocate capital. This process allows management to seek out specific investments that will benefit the most from favourable trends.

These specific investments are sourced through several channels. The Company, through its own initiatives and through a relationship with Sprott Inc. and its affiliates, continues to build a proprietary deal flow network. SRC's investment professionals continually seek out investment opportunities from a primary network of natural resource companies and their directors and officers. The Company strongly believes that our proprietary deal flow network is a competitive advantage in sourcing early opportunities in the private equity resource sector.

OUTLOOK

The Company is predominately exposed to oil, metallurgical coal and various agricultural commodities. As a result, the Company's portfolio valuations are significantly impacted by commodity price volatility and the USD/CDN foreign exchange rate.

Investor sentiment towards the natural resource sector has improved with some specific commodities experiencing strengthening prices. However, we expect a broader-based recovery to be gradual and characterized by near-term price volatility. We are cognizant that risks remain and that the early stages of a recovery will be fragile. As such, we are proceeding with caution and focusing on investments in the sectors which we believe have the most favourable outlook.

In order to position the the Company's investment portfolio for future growth, one of management's priorities is to exit mature investments where appropriate. In some cases, this has meant absorbing losses on certain legacy investments in order to generate liquidity necessary to strengthen our balance sheet and deploy capital into new investments that the current management team believes offer superior value creation potential for our shareholders. The Company is pleased with the progress made to date in these efforts and continues to apply this discipline to our existing investments. In the current portfolio, we are actively looking for opportunities to either exit mature investments such as Union Agriculture or, in the case of One Earth Farms Corp. ("OEF"), explore opportunities to improve that business's scale and efficiency.

Since 2014, global energy prices have been depressed. While we have seen early signs of a recovery in the sector, SRC expects oil prices to remain volatile throughout 2016 and that it will take time for balance to return to the market.

Metallurgical coal prices remain near cyclical lows despite some recent "green shoots" that may forecast the beginning of a recovery in the sector. The majority of U.S. metallurgical coal producers have either filed for creditor protection or begun asset sales. SRC's metallurgical coal investment, Corsa Coal Corp. ("Corsa Coal"), is uniquely positioned amid its competitors, having recently completed a financing that strengthened its balance sheet. Corsa Coal's management believes that the company has adequate capital to see it through the challenging metallurgical coal environment. Corsa Coal's management team may also consider opportunistic acquisitions to increase its market share and position it to help meet increased demand once the sector's supply/demand imbalance is resolved.

In the agriculture sector, several agricultural commodities, including livestock, continue to experience price weakness. OEF management is committed to managing its operations accordingly and is actively seeking to broaden its customer base and expand its branded-food product offering in the rapidly growing natural and organic food space.

In the current natural resource environment, management's focus is on monetizing mature investments and helping the existing core portfolio companies to position themselves to emerge from this downturn in the best position to capitalize on the next upswing in the commodities cycle. Management is also exploring opportunities to improve its liquidity profile, reduce SRC's discount to NAV and secure additional capital to take advantage of compelling investment opportunities presented by the depressed natural resources environment.

SRC views the investments it makes along traditional private equity timelines and new investments are entered into with the expectation that they will take between three and five years to mature. Management remains committed to using the tools at its disposal to further reduce the discount between the Company's share price and NAV.

As a long-term investor in resource businesses, the Company is continuously assessing the optimal investment window and required financial commitments to execute purchases and sales. It is the Company's intent to continue to be supportive of its investee companies, however the Company will be opportunistic in its investing strategies even if it means disposing of an investment for a loss during periods of prolonged commodity price declines. For additional information about the investment portfolio, see the *Portfolio Review* and *Key Investments* sections elsewhere in this MD&A.

SELECTED FINANCIAL INFORMATION

NAV and Share Value

	As at				
	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015
NAV (in thousands), based on fair values [1]	**$ 94,676**	$ 112,484	$ 107,327	$ 135,951	$ 190,999
NAV per share, based on fair values [2]	**$ 0.98**	$ 1.16	$ 1.11	$ 1.41	$ 1.95
Closing price per share (TSX:SCP)	**$ 0.60**	$ 0.48	$ 0.47	$ 0.61	$ 0.94
Discount to NAV [3]	**38.8%**	58.6%	57.7%	56.7%	51.8%
Number of common shares issued and outstanding	**96,672,102**	96,672,102	96,672,102	96,703,264	97,724,148

[1] *NAV is equivalent to total equity attributable to shareholders of the Company*

[2] *NAV per share is the Company's NAV divided by the number of the Company's common shares that are issued and outstanding*

[3] *Discount to NAV is the discount between NAV per share and the Company's closing stock price on the period-end date*

Statements of Operations

	For the Three-Months Ended		For the Six-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015	**Jun. 30, 2016**	Jun. 30, 2015
Investment loss	**$ (16,143)**	$ (8,590)	**$ (9,644)**	$ (32,563)
Expenses	**$ 1,374**	$ 1,844	**$ 2,837**	$ 3,789
Net loss attributable to shareholders	**$ (17,517)**	$ (10,428)	**$ (12,481)**	$ (36,346)

Statements of Financial Position

	As at	
(in thousands)	**Jun. 30, 2016**	Dec. 31, 2015
Working capital deficit [1]	**$ (5,969)**	$ (13,440)
Investments owned, at fair value	**100,645**	120,767
Total equity attributable to shareholders of the Company	**$ 94,676**	$ 107,327

[1] *Working capital is the Company's cash and cash equivalents together with its trade and other receivables less its total liabilities.*

Asset Allocation [1]

	As at			
(in thousands)	**Jun. 30, 2016**		Dec. 31, 2015	
Energy production and services	**43,140**	**42.9%**	54,248	44.9%
Agriculture	**36,897**	**36.6%**	57,243	47.4%
Mining	**20,608**	**20.5%**	9,276	7.7%
Total investments owned, at fair value	**$ 100,645**	**100%**	$ 120,767	100%
Unfunded investment commitments	**$ —**		$ 2,414	

[1] *Asset values are recorded at fair value and percentages are of total investment portfolio*

INVESTMENT SUMMARY

At June 30, 2016, the Company held 9 investments in three sectors. A summary of the Company's investments at June 30, 2016 is presented below *(in thousands)*.

Industry Sector	*% of NAV* [1]	*Public/ Private*	*Companies*	*Fair Value, Jun. 30, 2016*	*SRC Ownership (undiluted)*
Energy production and services	45.6%	Public (NYSE)	**Independence Contract Drilling, Inc.** ("ICD") is a U.S. oil services company specializing in the manufacture and operation of oil and natural gas directional drilling	31,993	12.0%
		Private	**InPlay Oil Corp.** ("InPlay Oil")[2] is a company developing a low decline, liquids - focused asset base. The company is based in Alberta, Canada.	5,491	19.8%
		Private	**R.I.I. North America Inc.** ("RII") is a Canadian energy technology company.	5,239	15.7%
		Private	**Other** [2] is comprised of a royalty interest in producing oil wells.	417	n/a
Mining	21.8%	Public (TSX-V)	**Corsa Coal Corp.** ("Corsa Coal")[2] is a Canadian company in the business of mining, processing and selling metallurgical and thermal coal, as well as actively exploring, acquiring and developing U.S. resource properties that are consistent with its existing coal business.	18,894	19.1%
		Public (TSX, TSX-V)	**Other**, is comprised of two publicly listed Canadian companies, one of which owns a uranium deposit in southern Virginia, U.S. (16.5%) and a company engaged in the business of acquiring, exploring and developing agricultural nutrient projects (16.7%).	1,714	n/a
Agriculture	39.0%	Private	**Union Agriculture** is a leading agriculture business operating in Uruguay with vertically integrated operations in crops, specialty crops and livestock.	21,533	6.3%
		Private	**OEF** is a Toronto, Canada based vertically integrated food business focused on natural and organic protein-based food production and retail.	15,364	49.98%
				$ 100,645	

[1] *Cash and cash equivalents, trade and other receivables less trade and other payables and amounts owing under the Facility represent (6.3)% of NAV*

[2] *An investment initiated by the current management team.*

PORTFOLIO REVIEW

Six-Months Ended June 30, 2016

As at June 30, 2016, the Company's investment portfolio was valued at $100.6 million (December 31, 2015: $120.8 million). The investment portfolio consists of private (unlisted) investment positions and public (listed) investment positions.

Portfolio breakdown

	As at					
		Jun. 30, 2016			Dec. 31, 2015	
(in thousands except (#))			(#)			(#)
Private positions	$	48,044	5	$	71,557	6
Public positions		52,601	4		49,210	6
Investment portfolio	$	100,645	9	$	120,767	12

Private investment positions (47.7% of portfolio)

Private investment positions consist of investments in energy exploration, production and services along with agriculture companies with an aggregate value of $48.0 million (December 31, 2015: $71.6 million). The three largest investments accounted for 88.2% of the private investment positions at June 30, 2016 (December 31, 2015: 92.0%).

Public investment positions (52.3% of portfolio)

Public investment positions consist of investments in energy exploration, production and services along with mining companies with an aggregate value of $52.6 million. The three largest investments accounted for 99.1% of the public investment positions at June 30, 2016 (December 31, 2015: 94.5%). Public investment positions typically arise through holdings of previously private investment positions. However, SRC may also invest in public companies that it believes are significantly undervalued or where the management team, which SRC wishes to support, operates through a public vehicle.

Portfolio movement

	For the Six-Months Ended			
(in thousands)		Jun. 30, 2016		Jun. 30, 2015
Opening investment portfolio, at fair value	$	120,767	$	237,198
New investments		2,661		715
Realizations [1]		(13,139)		(4,457)
Portfolio return		(9,644)		(32,563)
Closing investments portfolio, at fair value	$	100,645	$	200,893

[1] *Includes net proceeds from investment dispositions, dividends, royalties and interest income*

New investments

For the six-months ended June 30, 2016, new investments amounted to $2.7 million compared to $0.7 million for the six-months ended June 30, 2015. New investments for the six-months ended June 30, 2016 was comprised solely of a follow-on investment in Corsa Coal of $2.7 million. The Company considered 17 new investment opportunities for the six-months ended June 30, 2016 (six-months ended June 30, 2015: 76 new investment opportunities). New investments for the six-months ended June 30, 2015 were comprised solely of a committed follow-on royalty investment in Delphi Energy Corp. ("Delphi Energy") of $0.7 million.

Realizations

Realizations for the six-months ended June 30, 2016 amounted to $13.1 million which was primarily comprised of the gross proceeds received from the disposition of SRC's entire holdings of Long Run. Realizations for the six-months ended June 30, 2015 amounted to $4.5 million and were comprised of $0.4 million of dividend income received from Long Run, cash received from the Delphi Energy royalty investment of $0.6 million and gross proceeds of $3.4 million reflecting the disposal of certain passive investments.

	For the Six-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
Proceeds from investments	**$ (13,085)**	$ (3,441)
Dividends	**—**	(402)
Return of capital - Delphi Energy royalty investment	**(54)**	(614)
Total realizations	**$ (13,139)**	$ (4,457)

Portfolio return

For the six-months ended June 30, 2016, SRC's investment portfolio decreased by $9.6 million, or 8.0% compared to the opening portfolio of $120.8 million comprised primarily of unrealized losses on investments. This return includes unfavourable currency movements of $3.6 million for the six-months ended June 30, 2016.

	For the Six-Months Ended			For the Six-Months Ended		
			Jun. 30, 2016			**Jun. 30, 2015**
(in thousands)	Public	Private	**Total**	Public	Private	**Total**
Net realized gain (loss) on investments	$ (101,610)	$ (48,500)	**$ (150,110)**	$ 160	$ —	**$ 160**
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]	101,610	48,500	**150,110**	(160)	—	**(160)**
Change in unrealized loss on investments (excluding the effects of foreign exchange)[2]	15,599	(21,689)	**(6,090)**	(20,878)	(17,490)	**(38,368)**
Change in unrealized foreign exchange gain (loss) on investments	(1,784)	(1,770)	**(3,554)**	2,592	2,811	**5,403**
Dividend, royalty and other income	—	—	**—**	402	—	**402**
Total portfolio gain (loss)	$ 13,815	$ (23,459)	**$ (9,644)**	$ (17,884)	$ (14,679)	**$ (32,563)**

[1]*Amounts resulting from accounting reversals of investments sold in the period*
[2]*Amounts resulting from investments held at the period end*

For the six-months ended June 30, 2016**,** the Company recorded a net realized loss of $150.1 million on the disposition of Long Run, One Earth Oil & Gas Inc. ("OEOG") and Potash Ridge Corp. ("Potash Ridge"). The table above illustrates that this entire amount is offset by the reversal of previously recorded unrealized losses on these investments.

The majority of the portfolio loss for the six-months ended June 30, 2016 resulted from a change in the unrealized loss on investments (before the effects of foreign exchange). The change in unrealized loss on investments is predominantly due to the decreasing valuations of the Company's private investments..

Specifics of the change in unrealized loss on investments for the six-months ended June 30, 2016 is detailed in the *Operating Results* section elsewhere in this MD&A.

The investment portfolio is reported at fair value which is subject to daily changes including commodity price changes, foreign exchange movements and changes in market prices. SRC's current investment portfolio has approximately $53.5 million denominated in U.S. dollars. For every 5% increase (decrease) in the Canadian/U.S. foreign exchange rate (relative to the U.S. dollar), SRC's investment portfolio will decrease (increase) by approximately $2.7 million.

Portfolio sectors

The fair value of the investment portfolio is as follows:

	As at				
(in thousands)	Jun. 30, 2016		Dec. 31, 2015		
Energy production and services	$	43,140	42.9% $	54,248	44.9%
Agriculture		36,897	36.6%	57,243	47.4%
Mining		20,608	20.5%	9,276	7.7%
Total investments owned, at fair value	$	100,645	100% $	120,767	100%

Three-Months Ended June 30, 2016

Portfolio movement

	For the Three-Months Ended		
(in thousands)	Jun. 30, 2016		Jun. 30, 2015
Opening investment portfolio, at fair value	$	128,779 $	213,238
Realizations [1]		(11,991)	(3,755)
Portfolio return		(16,143)	(8,590)
Closing investments portfolio, at fair value	$	100,645 $	200,893

[1] *Includes net proceeds from investment dispositions, dividends, royalties and interest income*

New investments

For both the three-months ended June 30, 2016 and the three-months ended June 30, 2015, there were no new investments made. The Company considered 7 new investment opportunities for the three-months ended June 30, 2016 (three-months ended June 30, 2015: 31 new investment opportunities).

Realizations

Realizations for the three-months ended June 30, 2016 amounted to $12.0 million which was primarily comprised of the gross proceeds received from the disposition of SRC's entire holdings of Long Run. Realizations for the three-months ended June 30, 2015 amounted to $3.8 million and were comprised of certain legacy/passive investments.

	For the Three-Months Ended		
(in thousands)	Jun. 30, 2016		Jun. 30, 2015
Proceeds from investments	$	(11,960) $	(3,441)
Return of capital - Delphi Energy royalty investment		(31)	(314)
Total realizations	$	(11,991) $	(3,755)

Portfolio return

For the three-months ended June 30, 2016, SRC's investment portfolio decreased by $16.1 million, or 12.5% compared to the opening portfolio of $128.8 million comprised primarily of unrealized losses on investments. This return includes favourable currency movements of $0.2 million for the three-months ended June 30, 2016.

	For the Three-Months Ended			For the Three-Months Ended		
			Jun. 30, 2016			**Jun. 30, 2015**
(in thousands)	Public	Private	**Total**	Public	Private	**Total**
Net realized gain (loss) on investments	$ (87,835)	$ (48,500)	**$ (136,335)**	$ 160	$ —	**$ 160**
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]	87,835	48,500	**136,335**	(160)	—	**(160)**
Change in unrealized loss on investments (excluding the effects of foreign exchange)[2]	1,618	(17,917)	**(16,299)**	5,061	(12,312)	**(7,251)**
Change in unrealized foreign exchange gain (loss) on investments	93	63	**156**	(770)	(569)	**(1,339)**
Total portfolio gain (loss)	$ 1,711	$ (17,854)	**$ (16,143)**	$ 4,291	$ (12,881)	**$ (8,590)**

[1]*Amounts resulting from accounting reversals of investments sold in the period*
[2]*Amounts resulting from investments held at the period end*

For the three-months ended June 30, 2016, the Company recorded a net realized loss of $136.3 million on the disposition of Long Run and OEOG. The table above illustrates that this entire amount is offset by the reversal of previously recorded unrealized losses on these investments.

The majority of the portfolio loss for the three-months ended June 30, 2016 resulted from a change in the unrealized loss on investments (before the effects of foreign exchange) which was partially offset by unrealized foreign exchange gains. The change in unrealized loss on investments is predominantly due to the decreasing valuations of the Company's private investments.

Specifics of the change in unrealized gain (loss) on investments for the three-months ended June 30, 2016 is detailed in the *Operating Results* section elsewhere in this MD&A.

PRIVATE COMPANY VALUATIONS

The Company has several private company investments, the most material of which are discussed in the *Key Investments* section elsewhere in this MD&A.

The valuation of private companies is inherently difficult. The Company has the expertise to determine the fair value of its private investments yet acknowledges the value in sourcing outside expertise. As a result, the Company has adopted a valuation policy that includes engaging independent external valuators to perform an assessment of fair value of each material private investment (unless determined otherwise) on at least an annual basis.

Since adopting fair value accounting under IFRS for the quarter ended March 31, 2014, the Company has engaged three independent business valuation firms to assess the fair value of certain of the Company's private investments. Each valuation report has been prepared in accordance with the Practice Standards of the Canadian Institute of Chartered Business Valuators. Within those standards, there are three types of valuation reports, namely a Comprehensive Valuation, an Estimate Valuation and a Calculation report. The Company has engaged each valuation firm to prepare an Estimate Valuation report for each engagement. This type of report is most often prepared in the valuation of private companies for investment companies. Each Estimate Valuation report provides a range of fair value. Unless otherwise noted, the Company has chosen the midpoint for fair value.

There are two generally accepted valuation approaches: (i) the going concern approach, and (ii) the liquidation approach. Within each valuation approach there are various techniques available to the valuator to complete the valuation. The selection and basis for each valuation is subject to the valuator's professional judgment.

The Company did not obtain any independent valuations as at June 30, 2016.

KEY INVESTMENTS

Key investments in private companies are discussed by sector below *(in thousands except per share amounts)*:

Energy exploration, production and services

InPlay Oil Corp.

	June 30, 2016	December 31, 2015
Equity ownership	19.8%	19.9%
Fair value	$5,491	$8,602
Fair value per share	$0.30	$0.47
Cost	$23,969	$23,969
Type of investment	Growth capital	Growth capital
External valuation performed in the last 12 months	Yes [2]	Yes [2,3]
Valuation basis	Market and income approaches	Market and income approaches
Private company discount	Yes	Yes
Value driver	Exploration and development success	Exploration and development success
	Accretive acquisitions	Accretive acquisitions
	Cash flow netbacks [1]	Cash flow netbacks [1]

[1] *see Non-IFRS Financial Measures and Defined Terms section*

[2] *last completed at December 31, 2015*

[3] *completed at December 31, 2014*

Investment background

In June 2014 the Company invested $19.5 million in InPlay Oil, a private energy exploration and development company based in Calgary, Alberta. The mandate of InPlay Oil is to build a large, low decline rate, liquids focused asset base in Alberta. In December 2014, SRC completed an additional investment of $4.5 million together with other investors, a decision by the Company to support InPlay Oil management to be opportunistic in acquiring future oil properties in the depressed oil price environment.

The Company is invested alongside management, company directors and other significant private equity investors, such as JOG Capital, who will continue to provide support in the future growth of the business. This investment is consistent with SRC's goal of expanding our exposure in Alberta, Canada's leading energy market alongside strong co-investors and proven management.

Market environment

While the first quarter of 2016 brought a continuation of the price declines seen in 2015, the second quarter of 2016 did see rising WTI prices. As at June 30, 2016, WTI prices closed at USD$48 per barrel of oil, an increase of over 20% from March 31, 2016. Notwithstanding this improvement in the pricing environment, many companies in both Canada and the United States have continued to adjust their capital programs and to pursue asset divestitures as they attempt to align their operating plans with near term cashflow levels.

InPlay Oil, like the majority of energy companies in Alberta, has not been immune to the impacts of the current energy environment. However, given InPlay Oil's high quality asset base with approximately 83% light oil production and low decline rates, InPlay Oil continued to record positive cash flow netbacks at both the field level and at the corporate level during the second quarter of 2016 in the mid-teen dollars per barrel of equivalent ("boe") oil.

Operational update

InPlay Oil reported their production decreased slightly over the second quarter of 2016 from approximately 1,848 barrels of equivalent oil or gas per day ("boe/d") produced in the first quarter of 2016 to an estimated 1,675 boe/d produced in the second quarter of 2016.

However, as a result of rising oil prices, InPlay Oil reported their gross revenues (before hedges) increased on a per barrel basis during the second quarter of 2016. InPlay Oil has also continued to experience meaningful cost reductions as service companies in the energy sector have reacted to the lower energy pricing environment. As an example, since 2014, InPlay Oil has reported they observed at least a 35% reduction in the cost of drilling and completing a well.

Major risks

InPlay Oil is an exploration and production ("E&P") company and is exposed to the risks typically associated with other E&P companies. Some of the more significant risks include:

- a prolonged decline in crude oil, natural gas liquids and natural gas and the effect on credit liquidity and access to capital;
- volatility in oil and gas prices;
- uncertainties associated with drilling and well stimulation activities;
- access to adequate bank and equity capital for significant capital investment; and,
- actual reserves will vary from reserve estimates.

Valuation approach

As discussed in the *Private Company Valuations* section of this MD&A, the Company did not engage an independent external valuator for its investment in InPlay Oil as at June 30, 2016. The Company has instead fair valued this investment using information provided to the Company by InPlay Oil together with various public market data. The previous independent Estimate Valuation report as to the value of the Company's equity interest in InPlay Oil was prepared as at December 31, 2015.

The valuation was completed using a going concern basis that considered:

i. third-party expressions of interest for InPlay Oil equity ownership; and,
ii. market transactions for reserve and production value metrics.

Third-Party Expressions of Interest

The Company considered third-party expressions of interest in determining the fair value of InPlay Oil.

Market Transactions for Reserve and Production Value Metrics

Valuation metrics from 2015 and 2016 year-to-date were observed for precedent guideline transactions representing small to mid-cap sized companies with significant oil weighting. These were chosen given these assets generally have similar economics to those of InPlay Oil. Transactions from 2015 and 2016 year-to-date were considered, however, there were a limited number of relevant guideline transactions in the second half of 2015 and in 2016 resulting in a subjective overlay for the pricing environment.

The reserve value metric measures the value a purchaser is paying for each boe oil or gas reserve in the ground. InPlay Oil's reserve report at December 31, 2015 was the starting point for its reserves which was then adjusted for estimated declines and additional estimated economic production in the first half of 2016.

The flowing barrel metric measures the value associated with each boe of oil and gas currently being produced. This metric was used to confirm the implied values derived using the reserve value metric valuation approach.

The Company considered these metrics to determine the fair value of InPlay Oil.

Valuation technique	Methods employed	Unobservable input(s)	Unobservable input value
Adjusted net assets	Market transactions	Reserve value metrics	2P reserves: 12.0 - 13.0 $/boe
		Flowing barrel metrics	$63,000 - $68,000 boe/d

R.I.I. North America Inc.

	June 30, 2016	December 31, 2015
Equity ownership	15.7%	16.3%
Fair value	$5,239	$5,239
Fair value per share	$1.38	$1.38
Cost	$4,070	$4,070
Type of investment	Growth capital	Growth capital
External valuation performed in the last 12 months	No	No
Valuation basis	Adjusted recent transaction price	Adjusted recent transaction price
Private company discount	Yes	Yes
Value drivers	Proof of production	Proof of production
	Proof of concept	Proof of concept
	Continued access to capital	Continued access to capital

Investment background

From 2011 to 2015, the Company invested $4.1 million in RII, a private energy technology company based in Calgary, Alberta. RII owns the intellectual property in and to the patented Solvent Thermal Resource Innovations Process ("STRIP") for North America. The STRIP process allows for in-situ steam generation for enhanced oil recovery ("EOR") opportunities.

The Company is invested alongside management, company directors and other significant private investors, who have the capacity to provide support in the future growth of the business. This investment is consistent with SRC's goal of expanding our exposure in Alberta and Saskatchewan, Canada's leading energy markets alongside strong co-investors and proven management.

Operational update

Over the past several years, RII has invested over $45 million developing its STRIP technology. In 2015, RII purchased a 50% interest in a 3-section property located in Saskatchewan funded by a $7.1 million capital raise in the fourth quarter of 2015 from both existing and new shareholders at approximately $2.50 per share. RII intends to put its STRIP technology into production on this property with the intent of validating the commercial viability of its EOR technology. In the first half of 2016, RII raised $1.8 million in equity, primarily from existing shareholders at approximately $2.25 per unit (composed of one common share at $2.00 per share and one warrant valued at $0.25 per warrant), and approximately $3.0 million in a zero coupon secured convertible note, which is convertible to common shares at a conversion price $1.25 per share for corporate expenses and general working capital.

RII has a capital intensive program and it has little revenue producing products. It relies on its ability to raise capital to support the development of its technology. RII has historically raised sufficient capital to progress its STRIP technology to date and has also been successful in securing grant funding from Sustainable Development Technology Canada.

Major risks

RII is developing an enhanced oil recovery technology and is indirectly and directly exposed to the risks typically associated with E&P companies. Some of the more significant risks include:

- failure of the STRIP technology;
- economic viability of the STRIP technology;
- requirement for significant capital investment;
- uncertainties associated with drilling and well stimulation activities;
- government regulations and required regulatory approvals;
- risks associated with new drilling techniques;
- reserves and production may decline over time; and,

- actual reserves will vary from reserve estimates.

Valuation approach

As discussed in the *Private Company Valuations* section of this MD&A, the Company did not engage an independent external valuator for its investment in RII as at June 30, 2016. The Company has instead fair valued this investment relying on the most recent available information provided to investors, discussions with RII management, recent capital raises and publicly available pricing information disclosed by other investors in RII.

The valuation was completed using a going concern basis applying an adjusted recent transaction price approach to determine fair value at June 30, 2016.

RII most recently raised from its major shareholder, $3.0 million in a zero coupon secured convertible note, which is convertible to common shares at a conversion price of $1.25 per share. Prior to this, $1.8 million of capital was raised in the first half of 2016, with over 75% of the capital raised coming from existing shareholders, at approximately $2.25 per unit consisting of one common share valued at $2.00 and one warrant at $0.25. The Company did not participate in either of these capital raises. The prices at which capital was raised was a significant input in the determination of the fair value of the Company's investment in RII. Most notable was the last capital raise of $3.0 million funded solely by RII's largest shareholder in which SRC did not participate. The Company concluded the pricing of the $1.8 million capital raised in the first half of 2016 to be more representative of the fair value of RII as at June 30, 2016.

The Company believes that there is potential for significant value creation if the technology proves to be a success, and, conversely, significant value destruction if the technology proves to be unsuccessful. SRC has assessed the changes in the energy market since the capital raise, the forecasted additional capital requirement of RII together with the expected outcome of the Company's investment by applying a discount to the most relevant transaction price.

Agriculture

Union Agriculture Group

	June 30, 2016	December 31, 2015
Equity ownership	6.3%	6.3%
Fair value	$21,533	$29,187
Fair value per share	$6.36	$8.62
Cost	$28,699	$28,699
Type of investment	Growth capital	Growth capital
External valuation performed in the last 12 months	No	No
Valuation basis	Adjusted net assets	Adjusted net assets
Private company discount	Yes	Yes
Value drivers	Improved operating efficiencies	Improved operating efficiencies
	Accretive acquisitions	Accretive acquisitions
	Continued vertical integration	Continued vertical integration

Investment background

Union Agriculture is the single largest corporate agricultural landholder and operator in Uruguay and a leading producer of agricultural products for global export, including soybeans, wheat rice, cattle, sheep and dairy. The company is also involved in the logistics business through the ownership operation of silo facilities and vehicles.

Through a subsidiary, Union Agriculture operates in local and international trading markets, originates grains from more than 100 producers (including Union Agriculture and its subsidiaries), and participates in the logistics business through the ownership and operation of a fleet of trucks and six silo facilities strategically located throughout Uruguay. Union Agriculture has grown rapidly since its formation in 2008.

Union Agriculture's plan to continue growth will be from a combination of equity issuances and from enhancing operational efficiency in existing and newly acquired business divisions. Union Agriculture filed its non-offering preliminary prospectus with the OSC in October 2015. The non-offering preliminary prospectus is available on www.SEDAR.com but such document or its contents is not incorporated by reference herein. Union

Agriculture has not yet filed a non-offering final prospectus, the receipt of which by the OSC would result in Union Agriculture becoming a reporting issuer under the Securities Act (Ontario).

Operational update

As of June 30, 2015, Union Agriculture operated approximately 163,000 hectares of land in Uruguay, representing approximately 1% of the country's land surface. By combining the experience and operational knowledge of it's management with state-of-the-art agricultural techniques, Union Agriculture has built a hard-to-replicate agricultural production platform in Uruguay.

From incorporation to 2014, Union Agriculture focused on acquiring high-quality underutilized agricultural land in Uruguay, developing such land for increased productivity and exploiting it in an efficient and sustainable manner. On March 28, 2014, the Company acquired 100% of the subsidiaries of the El Tejar Group in Uruguay ("El Tejar"). The acquisition of El Tejar increased Union Agriculture's grains operations and the acquisition of Granosur Holding Limited shifted Union Agriculture's focus to a strategy of vertically integrating the agriculture value chain into Union Agriculture's existing land operations. The agricultural value chain concept refers to the whole range of goods and services necessary for an agricultural product to move from the farm to the final customer or consumer. As a result, Union Agriculture not only owns and operates land, but it now controls all aspects of the supply chain, including selling inputs for farming as well as storing, transporting and trading crops and livestock. By focusing on vertical integration, Union Agriculture has increased operational efficiencies and its negotiating power to enhance quality control and profitability.

As at June 30, 2015, Union Agriculture reported total assets of USD$716 million and total liabilities of USD$296 million resulting in total equity of USD$420 million. Union Agriculture's largest asset is it's property, plant and equipment at approximately USD$460 million representing approximately two thirds of its assets and over 90% of its NAV (after adjusting for the land valuation, as discussed hereafter). Of this amount, land owned by Union Agriculture is recorded at historical cost of approximately USD$450 million. In June 2015, Deloitte LLP ("Deloitte") carried out an independent appraisal of Union Agriculture's land holdings and valued the market value of the land portfolio at approximately USD$534 million.

In connection with Union Agriculture's shift in focus to a strategy of vertical integration, Union Agriculture has, or intends to, sell certain of its land holdings in order to reduce its debt. In Union Agriculture's recent filing with the OSC, existing bank borrowings were significant at approximately 45% of total equity with a reported working capital deficit.

Union Agriculture management have represented to the Company that Union Agriculture has shown improvement in its financial situation since June 30, 2015, restructuring some of its short-term debt, selling select farmland and reducing is working capital deficit.

For the year ended June 30, 2015, Union Agriculture reported a loss for the year of USD$53 million on revenues of USD$112 million compared to profits of USD$7 million on revenues of USD$71 million for the year ended June 30, 2014. The significant drop in international prices of commodities for the year ended June 30, 2015 coupled with higher finance costs due to the aforementioned El Tejar acquisition impacted Union Agricultures's profits and cash generation negatively and prompted Union Agriculture to obtain additional bank financing.

For the year ended June 30, 2015, Union Agriculture incurred operating losses of USD$32 million, generated negative operating cash flows of USD $10 million and had used most of its credit financial lines. In addition, Union Agriculture had a working capital deficit of USD$81 million and an accumulated deficit of USD$65 million at June 30, 2015. The working capital deficit and accumulated deficit resulted primarily from increases in debt related to the business acquisition of El Tejar and significant losses during the year ended June 30, 2015, mainly related to the significant drop in international prices of commodities. The projections prepared by Union Agriculture management for the twelve months ending June 30, 2016 forecast improving operating results. These projections, however, are heavily dependent on an estimated recovery of commodities prices.

Union Agriculture is currently negotiating to obtain financing arrangements with international financial institutions and to date, it has obtained the extension of mortgage guarantees and debt renewal agreements extending repayment terms. Union Agriculture believes that obtaining positive operating margins and a substantial reduction in financing costs will enable it to achieve positive cash flows for the normal course of its operations. However, there is no certainty that Union Agriculture will be able to obtain financing from any of those sources and that the assumptions underlying the operational projections will finally occur. All of these factors cast significant doubt about Union Agriculture's ability to continue as a going concern.

Major risks

Union Agriculture's ability to continue as a going concern is dependent upon its ability to access additional sources of capital and, ultimately, achieve profitable operations. Therefore, Union Agriculture's financial condition is subject to a number of risks, including:

A Limited Operating History with a History of Losses

Union Agriculture has a limited operating history and has recorded negative cash flows and incurred operating losses in many of the fiscal years since its formation. The continued development of Union Agriculture's business and the acquisition of additional farmland will require it to make significant capital expenditures. These expenditures, together with associated operating expenses, may result in continued negative cash flow and net losses in the foreseeable future. In addition, with Union Agriculture's relatively limited operating history, the risk profile of its business may be higher than for those companies with more established records of operation. Union Agriculture may continue to record losses and negative cash flows in future periods, its losses may increase in the future, and in the event that Union Agriculture does have profits, it may be unable to sustain its operating cash flow. Union Agriculture has a limited operating history upon which to evaluate the viability and sustainability of its current business and future prospects. Accordingly, Union Agriculture's future prospects should be considered in light of the risks and uncertainties experienced by other early stage agricultural companies. Union Agriculture may be unsuccessful in addressing any of these risks and uncertainties.

Dependence on New Capital

Union Agriculture's cash flow from operations is insufficient to provide the necessary capital to fund its operations, debt burden and capital expenditures. Union Agriculture requires additional capital to fund those requirements, whether through equity or debt financings or asset sales. Continued operations and its ability to continue as a going concern are dependent on its ability to obtain additional funding in the near future and thereafter, and there are no assurances that such funding will be available to Union Agriculture at all or will be available in sufficient amounts or on reasonable terms. Without additional funds Union Agriculture will be unable to continue operations and SRC may lose some or all of its investment in Union Agriculture.

Illiquidity of Farmland Assets

Union Agriculture's business is focused on acquiring and operating farmland. Farmland investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Furthermore, the agricultural real estate market in Uruguay is volatile. Such illiquidity and volatility may limit Union Agriculture's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Union Agriculture were required to liquidate farmland investments, the proceeds it receives might be significantly less than the aggregate carrying value of such property.

Trade Credit Risk

Union Agriculture is exposed to risks of loss in the event of non-performance by its customers. Union Agriculture has a limited operating history with sales concentrated in a few key customers. Some of Union Agriculture's customers may be highly leveraged and subject to their own operating and regulatory risks. Notwithstanding Union Agriculture's credit review and analysis mechanisms, Union Agriculture may experience financial loss in its dealings with other parties.

Valuation approach

As discussed in the *Private Company Valuations* section of this MD&A, the Company did not engage an independent external valuator for its investment in Union Agriculture as at June 30, 2016. The Company has instead fair valued this investment relying on the most recent available information provided to investors, pricing parameters implied by the market value of shares of selected public companies, commodity pricing trends, discussions with Union Agriculture management and publicly available pricing information disclosed by other investors in Union Agriculture.

The valuation was completed using a going concern basis applying an adjusted net assets approach to determine fair value at June 30, 2016. The fair value of Union Agriculture was determined by adjusting the reported book value of those assets and liabilities required in operations to their respective fair values as at June 30, 2016.

Financial information from Union Agriculture's June 30, 2015 audited financial statements, unaudited financial information from December 31, 2015 and March 31, 2016, the Company's expectation of Union Agriculture's June 30, 2016 results together with the land values as calculated by Deloitte LLP at June 30, 2015 were used to determine an adjusted net asset value of Union Agriculture.

The Company believes that the challenges faced by Union Agriculture as a result of its current financial position, depressed agricultural commodity prices and the delay in its efforts to obtain a public listing through its application with the OSC warranted a discount to NAV of approximately 50%.

Union Agriculture reports its financial statements in USD (see *Defined Terms* section), has consistently issued equity in USD and the Company's investment is in USD. As such the Company carries its holding of Union Agriculture in USD. Fluctuations in value, in part, occur from time to time due to the USD to CAD (see *Defined Terms* section) exchange rate.

One Earth Farms Corp.

	June 30, 2016	December 31, 2015
Equity ownership	49.98%	49.98%
Fair value	$15,364	$28,056
Fair value per share	$0.23	$0.42
Cost	$60,900	$60,900
Type of investment	Growth capital	Growth capital
External valuation performed in the last 12 months	Yes [1]	Yes [1,2]
Valuation basis	Adjusted net assets	Adjusted net assets
Private company discount	Yes	Yes
Value drivers	Retail sales growth	Retail sales growth
	Margin expansion	Margin expansion
	Vertical integration	Vertical integration

[1] *last completed at September 30, 2015*

[2] *completed at September 30, 2014*

Investment background

OEF was founded in 2009 and is now headquartered in Toronto, Canada and is a vertically integrated branded food products business focused on meat-based proteins sourced from animals raised in humane conditions without antibiotics, added hormones or steroids under a natural or organic protocol. "Natural" protocols refer to animals raised without the use of antibiotics, added hormones or steroids. "Organic" protocols refer to animals raised under CAN/CGSB-32.310, Organic Production Systems General Principles and Management Standards issued by the Canadian General Standards Board, and that are certified Organic. OEF participates in the value chain from farm to fork. OEF raises beef cattle, the majority of which are located in Western Canada, harvests the cattle at its wholly-owned slaughter and processing facility in Lacombe, Alberta and sells natural and organic beef, together with other natural and organic proteins including poultry, pork and value-added food products to customers in the Canadian market as well as to customers in select export markets, including within the European Union ("EU").

Market environment

Consumer demand for natural and organic proteins continues to grow in Canada, the United States and other global markets. This growth in demand is supported by demographic trends. Recent research shows that the demographic groups known as Millennials, Gen X and Gen Y have strong dispositions towards buying natural and organic foods and are less price sensitive than older generations.

Natural and organic foods sales have been rising steadily in both the United States and Canada since 1997 and have shown combined annual growth rates in double digits, far higher than the growth of the same categories for products that are not natural or organic. As more consumers switch to natural and organic proteins, increasing demand for the products, the niche is consolidating and maturing. The evidence is in the number of grocery categories that now offer natural and organic alternatives together with the number of mainstream grocery retailers and food service wholesalers that are also focusing in growing the natural and organic category.

Against this backdrop of growing demand, particularly for beef, is a challenging and slow moving supply chain constrained by the life cycle of cattle, and the requirements to develop and certify natural or organic programs. While commodity cattle producers have tools that they use, including the use of added hormones, steroids and other antibiotic treatments, to increase carcass size and shorten feeding duration and cost in order to create flexibility in the supply chain, these measures are not used to raise natural or organic animals and the resulting cost structure, carcass size, level of feed efficiency and time to get to market is not as efficient or cost competitive for natural and organic animals as commodity animals.

Operational update

OEF has had a significant transformation over the past two years since the acquisition of Beretta Farms (see *Defined Terms* section) including (i) the restructuring of cattle operations into custom managed operations under OEF's protocols across eleven ranches located in Saskatchewan and Alberta counting approximately 16,300 head of cattle in cow/calf and feeder operations as at June 30, 2016 with the operations subject to inspection and monitoring by OEF personnel as well as independent third parties including OEF's animal nutritionist and veterinarian; (ii) the continued vertical integration of the beef business with the acquisition in October 2014 of Canadian Premium Meats Inc. ("CPM"), a federally regulated and EU certified slaughter and processing facility located in Lacombe, Alberta and CPM is one of only four EU certified multi-species slaughter and processing facilities in Canada; and (iii) the targeted acquisition of branded food purveyors which OEF seeks for growth expansion and consolidation of the natural and organic beef brands in Canada. The notable acquisitions have included the assets of Prairie Heritage Producers Inc. ("PHP or "Heritage

Angus") in October 2014 and the assets of Diamond Willow Organics (2012) Ltd. ("Diamond Willow") in January 2015. OEF's food products are currently sold under the Beretta Farms, Beretta Kitchen, Heritage Angus, Black Apron, Diamond Willow Organics, Chinook Organics and Sweetpea Baby Food brands in five Canadian provinces along with select EU markets, China and the Middle East.

OEF experienced strong revenue growth in 2015 against a backdrop of turbulence and volatility in cattle markets in North America. This resulted in margin compression throughout OEF's supply chain during 2015 and particularly in the fourth quarter when a dramatic correction in cattle pricing was experienced leading to a net loss for the year. This volatility and margin compression continued during 2016 resulting in a net loss to OEF.

The loss was primarily driven by a reduction in the carrying value of OEF's current biological assets that was attributable to losses on a mark-to-market basis for OEF's cattle in the period. The reduction in fair value of OEF's biological assets was greater than the production and operating costs incurred for cattle in the period. OEF's largest asset, valued at $20 million at June 30, 2016 is its combined current and long-term biological assets which is down from $27 million at December 31, 2015. The change in fair value of OEF's biological assets reflects the continuing downward trend of cattle prices from December 31, 2015.

While OEF does not directly compete in the commodity cattle and beef markets, the pricing in those markets drives cattle valuation in terms of changes in fair value (a non-cash item) for OEF's feeder cattle and calf crop and commodity beef pricing provides a baseline over which OEF prices its products, commanding a premium for its beef compared to commodity beef. OEF marks-to-market the carrying value of its feeder cattle and calf crop assets on a monthly basis using the mid-point of a recognized third party Canadian pricing index for commodity cattle

Revenue at OEF for the three and six-months ended June 30, 2016 was approximately $11.5 million and $23.1 million, respectively compared to $16.1 million and $30.0 million, respectively for the same periods in 2015. The decrease in revenue reflects the steps taken by the Company to reduce the number of head harvested in order to realize higher average selling prices, lower average cost of cattle and improved gross margins in the face of the turbulent market conditions and downward pressure on beef selling prices.

The supply constraint has played a significant role in developing the natural and organic niche. However, commodity markets and pricing indices do not differentiate between commodity cattle and beef, or natural and organic cattle and beef. This disconnect has proved challenging for OEF as it tries to meet demand for its products at a competitive price point and the challenge has been in using higher volumes of third party cattle to supply the necessary beef to meet demand. The cost structure is higher for natural and organic cattle compared to commodity cattle and the demand for such cattle remains at a level that is higher than available supply. Accordingly, as these third-party natural and organic cattle come to market, prices are bid up by other participants in the natural and organic beef niche in order to secure cattle for delivery in future periods. OEF does achieve significantly higher average selling prices for its products compared to commodity beef, however, this spread over commodity beef prices has not always been sufficient to cover off the added costs for third party cattle required in order to maintain customer programs currently in place.

OEF will continue to supplement its supply of internally-raised cattle in 2016 through third-party purchases of finished cattle from select qualified producers, to meet forecast demand for beef products. As a result of the acquisition of competing brands such as Heritage Angus and Diamond Willow, OEF now has access to a larger pool of independent cattle producers who can raise cattle under OEF's strict natural and organic protocols and supply cattle into OEF's supply chain. However, the increased use of third-party cattle to meet demand for natural and organic beef is expected to have a negative impact on working capital and is expected to require a higher level of working capital within the business.

OEF continues to examine additional opportunities for growth in the range of products offered and the markets they are offered in.

Major risks

Some of the more significant risks associated with OEF include:

- supply chain management
- a rise in the price of inputs
- product pricing and sales volumes
- food safety
- economic dependence of OEF on large accounts

Valuation Approach

As discussed in the *Private Company Valuations* section of this MD&A, the Company did not engage an independent external valuator for its investment in OEF as at June 30, 2016. The Company has instead fair valued this investment relying on the most recent available information provided to investors, commodity pricing trends, the Company's effective control position of OEF and discussions with OEF management. The last independent Estimate Valuation report as to the value of the Company's equity interest in OEF was prepared as at September 30, 2015.

The valuation was completed using a going concern basis applying an adjusted net assets approach to determine fair value at June 30, 2016. The fair value of OEF was determined by adjusting the reported book value of those assets and liabilities required in operations to their respective fair values as at June 30, 2016, including the provision of allowances for OEF's goodwill and intangible assets. The adjusted net asset approach was considered the most appropriate valuation methodology.

In determining fair value, the value of tax losses was assessed based on market research.

The Company's reported fair value of OEF is recorded at approximately one times tangible book value with approximately 75% of tangible book value represented by its biological assets. The fair value of OEF's current and long-term biological assets was estimated using the mid-point of a third-party Canadian commodity livestock pricing index based on the gender and average weight of the cattle with respect to current biological assets. There is no third-party index for natural, organic or grass fed cattle which command premiums over commodity cattle prices. More than 90% of OEF's cattle are natural biological assets. OEF's remaining tangible assets consist of cash, receivables, inventories and property and equipment.

Listed investments

Summary information on the Company's more significant listed investments is presented below. Given their public company status, significant amounts of information on each of these listed investments is available as a result of their respective required continuous disclosure obligations. Readers are encouraged to obtain this information in order to best assess the financial position, results of operations, future prospects and risks associated with each of these listed investments of the Company. Additional information relating to these investments is available through their respective SEDAR (see *Defined Terms* section) or EDGAR filings and websites but such additional information is not incorporated by reference herein.

(in thousands)	June 30, 2016					
Listed investment	Ticker symbol and stock exchange		Investment Dollars Outstanding [1]		Fair Value	Valuation basis [2]
ICD [3] (in CDN dollars)	ICD: NYSE	$	56,716	$	31,993	closing price
Corsa Coal	CSO: TSX-V	$	40,372	$	18,894	closing price

[1] *Investment Dollars Outstanding represents the remaining capital to be recovered from an investment after considering proceeds of disposition, dividends received and other returns of capital.*

[2] *The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets*

[3] *ICD is a U.S. investment valued in Canadian dollars. The cost in USD was $56.6 million and the fair value as at June 30, 2016 in USD was $24.6 million.*

OPERATING RESULTS

Six-Months Ended June 30, 2016

Operating results for the six-months ended June 30, 2016 compared to the six-months ended June 30, 2015 are presented below.

Investment loss

(in thousands)		For the Six-Months Ended Jun. 30, 2016		Jun. 30, 2015
Net loss on investments	$	(9,644)	$	(32,965)
Dividend, royalty and other income		—		402
Investment loss	$	(9,644)	$	(32,563)

Net loss on investments

Net loss on investments is comprised of (i) net realized gain (loss) on investments, (ii) reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange), (iii) change in unrealized loss on investments (excluding the effects of foreign exchange), and (iv) change in unrealized foreign exchange gain (loss) on investments.

(in thousands)		For the Six-Months Ended Jun. 30, 2016		Jun. 30, 2015
Net realized gain (loss) on investments		(150,110)	$	160
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]		150,110		(160)
Change in unrealized loss on investments (excluding the effects of foreign exchange)[2]		(6,090)		(38,368)
Change in unrealized foreign exchange gain (loss) on investments		(3,554)		5,403
Net loss on investments	$	(9,644)	$	(32,965)

[1]*Amounts resulting from accounting reversals of investments sold in the period*
[2]*Amounts resulting from investments held at the period end*

Net realized gain (loss) on investments

Net realized gain (loss) on investments is determined by calculating the realized gain on investments and subtracting the calculated realized loss on investments. Gain or loss on investments is the difference between the gross proceeds received on disposing of an investment less the average cost base of that respective investment. Should the amount of this calculation result in a positive number, it is a realized gain on investment. If the amount of this calculation results in a negative number, it is a realized loss on investment.

(in thousands)		For the Six-Months Ended Jun. 30, 2016	#		Jun. 30, 2015	#
Total realized gains	$	—	—	$	379	1
Total realized losses		(150,110)	3		(219)	2
Total net realized gain (loss) on investments	$	(150,110)	3	$	160	3

During the six-months ended June 30, 2016, the Company disposed of three investments incurring a total realized loss of $150.1 million. The disposition of Potash Ridge resulted in a realized loss of $13.8 million while the dispositions of OEOG and Long Run resulted in realized losses of $48.5 million and $87.8 million respectively.

Reversal of previously recorded unrealized loss (gain) on investments

In the year an investment is disposed of, all previously recorded unrealized losses are reversed through "Reversal of previously recorded unrealized loss on investments, excluding the effects of foreign exchange loss on investments" and the economics of the transaction are fully captured in "Net realized, gain (loss) on investments".

	For the Six-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
Potash Ridge	**$ 13,775**	$ —
OEOG	**48,500**	—
Long Run	**87,835**	—
Other	**—**	(160)
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]	**$ 150,110**	$ (160)

[1]*Amounts resulting from accounting reversals of investments sold in the period*

Change in unrealized loss on investments

The following table provides further detail as to the composition of the changes in unrealized gain (loss) recorded in the respective periods, excluding changes in unrealized foreign exchange gain (loss) and reversals of previously recorded unrealized loss on investments (excluding the effects of foreign exchange):

		For the Six-Months Ended	
(in thousands)	Public/Private	**Jun. 30, 2016**	Jun. 30, 2015
Long Run	Public	**$ 3,680**	$ (16,330)
ICD	Public	**2,123**	20,075
InPlay Oil	Private	**(3,111)**	(366)
RII	Private	**—**	323
Corsa Coal	Public	**9,659**	(20,142)
OEF	Private	**(12,692)**	2,004
Union Agriculture	Private	**(5,884)**	(4,543)
Other investments	Private/Public	**135**	(19,389)
Change in unrealized loss on investments (excluding the effects of foreign exchange)[1]		**$ (6,090)**	$ (38,368)

[1]*Amounts resulting from investments held at the period end*

See the *Key Investments* section for a discussion to support the change in the unrealized loss on investments of the private investments.

Change in unrealized foreign exchange gain (loss) on investments

	For the Six-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
ICD	**$ (1,784)**	$ 2,591
Union Agriculture	**(1,770)**	2,812
Change in unrealized foreign exchange gain (loss) on investments	**$ (3,554)**	$ 5,403

Expenses

(in thousands)		For the Six-Months Ended Jun. 30, 2016		Jun. 30, 2015
General and administrative expenses	$	**913**	$	1,268
Management fees and compensation		**1,105**		2,095
Transaction costs		**103**		25
Finance expense		**716**		401
Total expenses	$	**2,837**	$	3,789

The composition of general and administrative ("G&A") expenses is as follows:

(in thousands)		For the Six-Months Ended Jun. 30, 2016		Jun. 30, 2015
Professional fees	$	**138**	$	200
Public company reporting costs		**507**		642
Office expenses		**268**		426
	$	**913**	$	1,268

Public company reporting costs includes $171 thousand of director stock-based compensation for the six-months ended June 30, 2016 (six-months ended June 30, 2015: $90 thousand). The decrease in professional fees, public company reporting costs and office expenses for the six-months ended June 30, 2016, compared with the six-months ended June 30, 2015, reflects the Company's continuing efforts to reduce costs.

The decrease in management fees and compensation costs for the six-months ended June 30, 2016, compared with the six-months ended June 30, 2015, is due to the decline in the average NAV of the Company on which the fee is based. Included in management fees and compensation is stock-based compensation for the six-months ended June 30, 2016 of $159 thousand (six-months ended June 30, 2015: $34 thousand), in connection with the Company's equity incentive plan that historically was paid as cash compensation.

For the six-months ended June 30, 2016, transaction costs of $103 thousand were incurred, compared to $25 thousand for the six-months ended June 30, 2015. For the six-months ended June 30, 2016, transaction costs were primarily a result of the commission and professional fees associated with the Company's sale of Potash Ridge shares. Transaction costs are not expected to be comparable to prior periods since they arise primarily when transactions are identified and entered into at the discretion of management.

Under IFRS, interest expense is included as finance expenses. The Company incurred a finance expense of $716 thousand for the six-months ended June 30, 2016, compared to $401 thousand for the six-months ended June 30, 2015. The finance expense for the six-months ended June 30, 2016 was comprised of interest expense on the Facility and a one-time fee resulting from amending the Facility compared to the six-months ended June 30, 2015 that was fully comprised of interest expense on the Facility.

Income taxes

For the six-months ended June 30, 2016 and six-months ended June 30, 2015, the Company did not report any current or deferred income taxes.

As at June 30, 2016 and June 30, 2015, management determined that the Company did not meet the criteria as set out in International Accounting Standard 12: *Income Taxes* to recognize a deferred tax asset.

Deferred income taxes are primarily driven by the change in unrealized gains and losses reported by the Company. As the Company reports unrealized gains, all else being equal, the Company will record a deferred income tax expense as there is a strong correlation between unrealized gains and deferred income tax expense. Similarly, as the Company reports unrealized losses, all else being equal, the Company will record a deferred income tax recovery subject to the Company determining that unrealized losses are more likely than not to be utilized in the future.

Net income (loss) and comprehensive income (loss)

For the six-months ended June 30, 2016, the Company reported a net loss attributed to shareholders of $12.5 million ($0.13 loss per share) compared to a net loss attributed to shareholders of $36.3 million ($0.37 loss per share) reported for the six-months ended June 30, 2015. The components of these amounts are discussed in the explanations provided above.

Three-Months Ended June 30, 2016

Operating results for the three-months ended June 30, 2016 compared to the three-months ended June 30, 2015 are presented below.

Investment loss

	For the Three-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
Net loss on investments	**$ (16,143)**	$ (8,590)
Investment loss	**$ (16,143)**	$ (8,590)

Net loss on investments

Net loss on investments is comprised of (i) net realized gain (loss) on investments, (ii) reversal of previously recorded unrealized loss on investments (excluding the effects of foreign exchange), (iii) change in unrealized loss on investments (excluding the effects of foreign exchange), and (iv) change in unrealized foreign exchange gain (loss) on investments.

	For the Three-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
Net realized gain (loss) on investments	**(136,335)**	$ 160
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]	**136,335**	(160)
Change in unrealized loss on investments (excluding the effects of foreign exchange)[2]	**(16,299)**	(7,251)
Change in unrealized foreign exchange gain (loss) on investments	**156**	(1,339)
Net loss on investments	**$ (16,143)**	$ (8,590)

[1]*Amounts resulting from accounting reversals of investments sold in the period*
[2]*Amounts resulting from investments held at the period end*

Net realized gain (loss) on investments

	For the Three-Months Ended			
(in thousands)	**Jun. 30, 2016**	**#**	Jun. 30, 2015	#
Total realized gains	**$ —**	**—**	$ 379	1
Total realized losses	**(136,335)**	**2**	(219)	2
Total net realized gain (loss) on investments	**$ (136,335)**	**2**	$ 160	3

During the three-months ended June 30, 2016, the Company disposed of two investments incurring a total realized loss of $136.3 million. The disposition of OEOG and Long Run resulted in a realized loss of $48.5 million and $87.8 million respectively.

Reversal of previously recorded unrealized loss (gain) on investments

In the year an investment is disposed of, all previously recorded unrealized losses are reversed through "Reversal of previously recorded unrealized loss (gain) on investments, excluding the effects of foreign exchange gain (loss) on investments" and the economics of the transaction are fully captured in "Net realized loss on investments".

	For the Three-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
OEOG	**$ 48,500**	$ —
Long Run	**87,835**	—
Other	**—**	(160)
Reversal of previously recorded unrealized loss (gain) on investments (excluding the effects of foreign exchange)[1]	**$ 136,335**	$ (160)

[1] *Amounts resulting from accounting reversals of investments sold in the period*

Change in unrealized loss on investments

The following table provides further detail as to the composition of the changes in unrealized gain (loss) recorded in the respective periods, excluding changes in unrealized foreign exchange gain (loss) and reversals of previously recorded unrealized loss on investments (excluding the effects of foreign exchange):

		For the Three-Months Ended	
(in thousands)	Public/Private	**Jun. 30, 2016**	Jun. 30, 2015
Long Run	Public	**$ 805**	$ 2,300
ICD	Public	**3,879**	10,889
InPlay Oil	Private	**(2,013)**	—
RII	Private	**—**	(71)
Corsa Coal	Public	**(3,149)**	(7,109)
OEF	Private	**(10,020)**	2,004
Union Agriculture	Private	**(5,884)**	(2,658)
Other investments	Private/Public	**83**	(12,606)
Change in unrealized loss on investments (excluding the effects of foreign exchange)[1]		**$ (16,299)**	$ (7,251)

[1] *Amounts resulting from investments held at the period end*

See the *Key Investments* section for a discussion to support the change in the unrealized loss on investments of the private investments.

Change in unrealized foreign exchange gain (loss) on investments

	For the Three-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
ICD	**$ 93**	$ (770)
Union Agriculture	**63**	(569)
Change in unrealized foreign exchange gain (loss) on investments	**$ 156**	$ (1,339)

Expenses

(in thousands)	For the Three-Months Ended Jun. 30, 2016	Jun. 30, 2015
General and administrative expenses	$ 396	$ 632
Management fees and compensation	522	973
Transaction costs	23	25
Finance expense	433	214
Total expenses	$ 1,374	$ 1,844

The composition of G&A expenses is as follows:

(in thousands)	For the Three-Months Ended Jun. 30, 2016	Jun. 30, 2015
Professional fees	$ 64	$ 80
Public company reporting costs	243	334
Office expenses	89	218
	$ 396	$ 632

Public company reporting costs includes $93 thousand of director stock-based compensation for the three-months ended June 30, 2016 (three-months ended June 30, 2015: $90 thousand). The decrease in professional fees, public company reporting costs and office expenses for the three-months ended June 30, 2016, compared with the three-months ended June 30, 2015, reflects the Company's continuing efforts to reduce costs.

The decrease in management fees and compensation costs for the three-months ended June 30, 2016, compared with the three-months ended June 30, 2015, is due to the decline in the average NAV of the Company on which the fee is based. Included in management fees and compensation is stock-based compensation for the three-months ended June 30, 2016 of $47 thousand (three-months ended June 30, 2015: $17 thousand), in connection with the Company's equity incentive plan that historically was paid as cash compensation.

For the three-months ended June 30, 2016, transaction costs of $23 thousand were incurred, compared to $25 thousand for the three-months ended June 30, 2015. Transaction costs are not expected to be comparable to prior periods since they arise primarily when transactions are identified and entered into at the discretion of management.

Under IFRS, interest expense is included as finance expenses. The Company incurred a finance expense of $433 thousand for the three-months ended June 30, 2016, compared to $214 thousand for the three-months ended June 30, 2015. The finance expense for the three-months ended June 30, 2016 was comprised of interest expense on the Facility and a one-time fee resulting from amending the Facility compared to the three-months ended June 30, 2015 that was fully comprised of interest expense on the Facility.

Income taxes

For the three-months ended June 30, 2016 and three-months ended June 30, 2015, the Company did not report any current or deferred income taxes.

Net income (loss) and comprehensive income (loss)

For the three-months ended June 30, 2016, the Company reported a net loss and comprehensive loss of $17,517 thousand ($0.18 loss per share) compared to a net loss and comprehensive loss of $10,428 thousand ($0.11 loss per share) reported for the three-months ended June 30, 2015. The components of these amounts are discussed in the explanations provided above.

Statement of Financial Position

Assets

(in thousands)		As at Jun. 30, 2016		Dec. 31, 2015
Cash and cash equivalents	$	442	$	674
Trade and other receivables		12,229		173
Investments owned, at fair value		100,645		120,767
Total assets	$	113,316	$	121,614

The carrying amount of the trade and other receivables incorporates management's assessment of credit risk. For additional information, see Credit Risk under the *Risk Management* section elsewhere in this MD&A.

Included in Trade and other receivables is $12.0 million of cash proceeds from the disposition of its investment in Long Run which was received subsequent to June 30, 2016.

For a detailed discussion of the Company's investment portfolio, see the *Investment Summary*, *Portfolio Review* and *Key Investments* sections of this MD&A.

Liabilities

(in thousands)		As at Jun. 30, 2016		Dec. 31, 2015
Trade and other payables	$	939	$	666
Credit facility		17,701		13,621
Total liabilities	$	18,640	$	14,287

Included in trade and other payables as at June 30, 2016 are management fees payable to SCLP of $0.5 million (December 31, 2015: $0.2 million) together with other accrued liabilities and trade payables.

During 2014, the Company entered into a $20.0 million Facility with SRLC which was subsequently reduced to $18.0 million. As of June 30, 2016, the outstanding balance of the Facility is $17.7 million (December 31, 2015: $13.6 million), which includes capitalized interest in the amount of $0.5 million (December 31, 2015: $0.9 million). During the six-months ended June 30, 2016 the Company repaid $1.1 million of interest (December 31, 2015: $nil). For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A.

Working capital deficit

(in thousands)		As at Jun. 30, 2016		Dec. 31, 2015
Cash and cash equivalents, trade and other receivables	$	12,671	$	847
Liabilities		(18,640)		(14,287)
Working capital deficit	$	(5,969)	$	(13,440)

As at June 30, 2016, the Company had a working capital deficit of $6.0 million (December 31, 2015: working capital deficit of $13.4 million in addition to a commitment of $2.4 million). For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A.

NAV per share

	As at				
	Jun. 30, 2016	**Mar. 31, 2016**	**Dec. 31, 2015**	**Sept. 30, 2015**	**Jun. 30, 2015**
NAV per share, based on fair values	**$ 0.98**	$ 1.16	$ 1.11	$ 1.41	$ 1.95

Management views NAV per share as an indicative performance measure as it reflects the value attributable to each common share of the Company. NAV (and not NAV per share) on a stand-alone basis is not necessarily an absolute basis of measurement as it does not reflect all of the impacts in value to the shareholder, including the effects of the $120.1 million in capital returned to shareholders through normal course issuer bids and the 2013 dividend.

LIQUIDITY AND CAPITAL RESOURCES

Major cash flow components

	For the Six-Months Ended	
(in thousands)	**Jun. 30, 2016**	Jun. 30, 2015
Cash flows used in operating activities		
Net loss attributable to shareholders	**$ (12,481)**	$ (36,346)
Items not affecting cash		
Net loss on investments	**9,644**	32,965
Stock-based compensation	**309**	198
	(2,528)	(3,183)
Purchase of investments	**(2,661)**	(715)
Sale of investments	**13,139**	4,055
Changes in non-cash operating working capital		
Trade and other receivables	**(12,056)**	1,254
Trade and other payables	**277**	(1,847)
Accrued interest on credit facility	**621**	402
	(680)	3,149
Cash used in operating activities	**(3,208)**	(34)
Cash flows provided by financing activities		
Proceeds from credit facility	**4,500**	2,000
Repayments of credit facility	**(1,045)**	—
Acquisition of treasury stock	**(479)**	(430)
Normal course issuer bid	**—**	(154)
Cash provided by financing activities	**2,976**	1,416
Change in cash and cash equivalents	**(232)**	1,382
Cash and cash equivalents - Beginning of year	**674**	1,713
Cash and cash equivalents - End of period	**$ 442**	$ 3,095

For the six-months ended June 30, 2016, the Company recorded a net loss of $12.5 million. Items not affecting cash totaled $10.0 million and together with net proceeds from investments of $10.5 million and a decrease in non-cash operating working capital of $11.2 million, the Company reported cash used in operating activities of the Company of $3.2 million.

For the six-months ended June 30, 2015, the Company recorded a net loss of $36.3 million. Items not affecting cash totaled $33.2 million and together with net proceeds from investments of $3.3 million and a decrease in non-cash operating working capital of $0.2 million, the Company reported cash used in operating activities of the Company of $34 thousand.

For the six-months ended June 30, 2016, cash provided by financing activities totaled $3.0 million compared to cash provided by financing activities of $1.4 million for the six-months ended June 30, 2015. For the six-months ended June 30, 2016, cash provided by financing activities comprised of funds drawn on the Facility of $4.5 million, repayments of the Facility of $1.0 million and the purchase of common shares for the equity incentive plan of $0.5 million.

For the six-months ended June 30, 2015, cash provided by financing activities of $1.4 million comprised of funds drawn on the Facility of $2.0 million, the purchase of common shares for the equity incentive plan of $0.4 million and the repurchase of common shares for cancellation under the 2015 NCIB for $0.2 million.

There are no legal or practical restrictions on the ability of SRP to transfer funds to the Company for the Company to meet its obligations.

FINANCING ACTIVITIES BY THE COMPANY

It has been the Company's policy to preserve a financially strong company that has the capital available to support the growth of existing investments and make new investments. In certain circumstances, the Company will provide loans or guarantees to investee companies in which it has significant ownership to further their respective business plans. There are no material loans or guarantees to investee companies at June 30, 2016.

On September 29, 2015, the Company as the borrower and SRP as the guarantor entered into an amended and restated Facility with SRLC, a subsidiary of Sprott Inc., the parent company of the Managing Partner, which was subsequently amended by an amending agreement dated May 10, 2016. The Facility is an $18.0 million term facility that matures on November 11, 2016 ("Maturity Date") and is available for general corporate purposes. Upon signing the amending agreement SRC paid a commitment fee equal to 0.5% of the Facility. Interest accrues daily at 8% per annum, compounded monthly. All obligations of the Company under the Facility are unconditionally guaranteed by SRP.

SRC has the option to capitalize interest during the term of the Facility. All capitalized interest shall be paid in cash or by way of shares of SRC as determined by the independent directors of the Company. The number of shares of SRC to be issued in payment of interest shall be equal to the amount of interest payable divided by the 5 trading day volume weighted average price for the shares of SRC. All unpaid interest shall be paid in full on the Maturity Date. Prior to the Maturity Date, SRC shall be entitled to pay unpaid interest on the last business day of any month.

As at June 30, 2016, the Company is in compliance with all covenants of the Facility. The Facility provides that the Company will (i) apply all proceeds of the disposition of any shares, equity interests or other securities owned (directly or indirectly) by the Company in prepayment of the Facility (including any accrued and unpaid interest and any other amounts payable thereunder), (ii) not to enter into any reorganization, consolidation, amalgamation, arrangement, winding-up, merger, disposal of all or substantially all of its assets or other similar transaction without the prior written consent of SRLC; and (iii) not to declare, make or pay any dividends. The Facility provides that it shall be an event of default if the market value of the publicly traded securities owned by the Company is less than three times the total amount drawn under the Facility (the "Market Value Covenant"). On January 29, 2016, SRLC agreed to waive the Market Value Covenant until the Maturity Date as a result of continued public markets volatility. In addition, on June 28, 2016 SRLC agreed to waive the requirement to repay all the proceeds received on the disposition of Long Run.

As of June 30, 2016, the outstanding balance of the Facility was $17.7 million (December 31, 2015: $13.6 million), which included capitalized interest of $0.5 million (December 31, 2015: $0.9 million). During the six-months ended June 30, 2016 the Company repaid $1.1 million of interest (December 31, 2015: $nil). As at the date hereof, the outstanding balance of the Facility is approximately $16.6 million. The Company may be required to monetize a portion of its investments, subject to market conditions, or obtain capital from other sources, to maintain current operations and/or repay the Facility.

OUTSTANDING SHARE DATA

Authorized capital:

Common shares, no par value, unlimited shares.

Issued and outstanding:

The Company had 96,672,102 common shares issued and outstanding as at June 30, 2016 and the date hereof.

(in thousands except Number Issued and Outstanding)	**Number Issued and Outstanding**		**Amount**
Balance - December 31, 2015, June 30, 2016 and July 22, 2016	**96,672,102**	**$**	**280,902**

Outstanding stock options:

The Company did not grant any stock options subsequent to 2012 and there are no current plans to grant stock options to the directors and officers in the future. There are 226,666 stock options outstanding as at August 10, 2016 expiring in 2016 and 2017 at exercises prices ranging from $4.00 to $4.99 per common share.

Normal course issuer bid

On September 4, 2015, the Company announced that it had received approval from the TSX to commence a normal course issuer bid ("2015 NCIB") on September 10, 2015 to repurchase and cancel up to 8.5 million of its common shares, representing approximately 8.99% of the public float of the Company and approximately 8.73% of the total number of issued and outstanding shares at that time. The 2015 NCIB will end on the earlier of (i) September 9, 2016, (ii) when the number of common shares sought under the 2015 NCIB have been obtained, or (iii) when notice is given by SRC to the TSX terminating the 2015 NCIB if SRC determines that it is appropriate to do so. Pursuant to TSX policies, daily purchases made by SRC may not exceed 31,162 common shares, being 25% of the six-month average daily trading volume of 125 thousand common shares on the TSX, subject to certain prescribed TSX exceptions including the "block purchase exemption".

For the six-months ended June 30, 2016, the Company did not purchase any common shares under the 2015 NCIB.

Treasury stock

On May 21, 2014, the Company adopted an equity incentive plan (the "Trust") for employees and directors of the Company. The Trust has been established and the Company funded the Trust with cash, which will be used by the trustee to purchase common shares of the Company on the open market. The shares are held in the Trust and the Company can request the Trust to set aside the shares it holds for the benefit of directors and employees (individually the "Beneficiary") until certain conditions are satisfied, at which time the Trust may allocate and issue those shares to the Beneficiary or, if requested, dispose of them and remit the receipts to the Beneficiary. The shares set aside for employees in the Trust form a part of total compensation that was historically paid as cash and is not incremental compensation. The shares set aside for directors in the Trust cannot be monetized or removed from the Trust until the director retires or otherwise leaves the board.

The shares held by the Trust are accounted for as treasury stock and reflected as a separate component of shareholders' equity. As the rights to receive the shares vest in the Beneficiary, the cost of the shares is recorded as stock-based compensation expense with a corresponding entry to contributed surplus. There is no change in the amount of the Company's issued and outstanding common shares as a result of either the purchase by the Trust or the granting and vesting of the shares to employees or directors.

The Trust purchased 848 thousand common shares for the six-months ended June 30, 2016 (for the year ended December 31, 2015: 718 thousand common shares). During the six-months ended June 30, 2016, an additional 268 thousand common shares were released on vesting from the equity incentive plan.

COMMITMENTS - PAYMENTS DUE BY PERIOD (as at August 10, 2016)

	Commitments Payments Due by Period								
(in thousands)		**Total**		< 1 Year		1 - 3 Years		4 - 5 Years	After 5 Years
Financial liabilities *(a)*	**$**	**961**	$	961	$	—	$	—	$ —
Facility *(b)*		**16,586**		16,586		—		—	—
Total	**$**	**17,547**	$	17,547	$	—	$	—	$ —

(a) Financial liabilities

The Company has financial liabilities due within one year. For additional information, see Liabilities under the *Operating Results* section of this MD&A.

(b) Facility

On September 29, 2015, the Company as the borrower and SRP as the guarantor entered into an amended and restated Facility with SRLC, a subsidiary of Sprott Inc., the parent company of the Managing Partner, which was subsequently amended by an amending agreement date May 10, 2016. The Facility is an $18.0 million term facility that matures on November 11, 2016 and is available for general corporate purposes. Upon signing the amending agreement SRC paid a commitment fee equal to 0.5% of the Facility. Interest accrues daily at 8% per annum, compounded monthly. All obligations of the Company under the Facility are unconditionally guaranteed by SRP. For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A.

(c) SRC Management Services Agreement ("MSA")

SRC invests and operates in the natural resource sector through SRP. Substantially all of the holdings of SRC are held by SRP. The only assets not held by SRP are those assets necessary to administer the (i) public company and (ii) equity incentive plan of the Company. SRC owns nearly all of SRP (approximately 99.99%), other than the managing partnership interest owned by the Managing Partner (approximately 0.01%).

The Managing Partner has the power and authority to transact the business of SRP and to deal with and in SRP's assets for the use and benefit of SRP, except as limited by any direction of the Board of SRC, and subject to certain limits on authority established from time to time by the Board of SRC.

The Managing Partner holds all non-voting partnership units and, within the terms and conditions established by the Company, will manage SRP's investment activities and assets, and administer the day-to-day operations of SRP. The Managing Partner of SRP may be removed by way of a Special Resolution (as defined in the Partnership Agreement) approved by no less than two thirds of the votes cast by the holders of the voting partnership units who vote on the resolution. SRC holds all of the voting partnership units of SRP.

TRANSACTIONS WITH RELATED PARTIES

The Company entered into the following transactions with related parties during the six-months ended June 30, 2016.

Management fees and employment compensation pursuant to the MSA for the six-months ended June 30, 2016 were $1.1 million (six-months ended June 30, 2015: $2.1 million). The employment compensation portion was paid directly to employees and consultants of SRC provided by SCLP and the remainder was paid and payable to SCLP, an entity with directors and officers in common. As at June 30, 2016, there was $0.5 million (December 31, 2015: $0.2 million) payable to SCLP for management fees calculated pursuant to the MSA.

On September 29, 2015, the Company as the borrower and SRP as the guarantor entered into an amended and restated Facility with SRLC, a subsidiary of Sprott Inc., the parent company of the Managing Partner, which was subsequently amended by an amending agreement date May 10, 2016. The Facility is an $18.0 million term facility that matures on November 11, 2016 and is available for general corporate purposes. For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A.

Transactions with related parties are recorded at the price agreed between the parties. Transactions in the normal course of business are measured at the monetary amount, which is the amount of consideration established, agreed to and paid by the related parties based on standard commercial terms.

MANAGEMENT FEE AND PERFORMANCE HURDLE

On May 11, 2015, the Board and the general partner of SCLP approved further changes to the Amended and Restated MSA and the Second Amended and Restated MSA was entered into effective January 1, 2015. The further amendments were put in place to address the Company's adoption of IFRS 10, *Consolidated Financial Statements* and to better align the interests of the Company and SCLP. Such amendments provide, amongst other things, that (i) SCLP is responsible for additional investment management expenses of the Company; (ii) the termination fee payable to SCLP on termination of the agreement (upon or in the absence of, a change of control) has been adjusted; and (iii) the management services fee will be reduced to 0.375% to the extent that and in respect of the Quarterly Net Asset Value (see *Defined Terms* section) of the Company in excess of $1 billion. The Second Amended and Restated MSA may be accessed at www.sedar.com.

The adoption of the investment entity amendments of IFRS 10, IFRS 9 and IAS 28 (the "IFRS Amendments") had no impact on the calculation of management fees and Profit Distribution (see *Defined Terms* section). However, the Board did adopt wording changes to the MSA and the Partnership Agreement to better reflect the IFRS Amendments adopted by the Company.

The Company's calculation of management fees payable to SCLP remains unchanged after adopting the IFRS Amendments. The calculation will continue to be determined in respect of each fiscal quarter, 0.5% of the Quarterly Net Asset Value of the Company (2% per annum) where Quarterly Net Asset Value of the Company means, the average of the NAV of the Company as at the end of such fiscal quarter and the NAV of the Company as at the end of the immediately preceding fiscal quarter. NAV of the Company, means, in respect of a particular date, the Company's total assets less its total liabilities less its minority interest, all as at such date as set forth in the Company's consolidated financial statements prepared as at such date.

For the purposes of calculating management fees for the three-months ended June 30, 2016, the reported NAV at March 31, 2016 of $112.5 million was used together with the NAV reported at June 30, 2016 of $94.7 million. Management fees are calculated quarterly based on the average NAV of the current quarter and the prior quarter.

Profit distribution

The adoption of the IFRS Amendments required management to recalculate the Profit Distribution hurdle in order to maintain the spirit of the Partnership Agreement and not penalize SRC shareholders or SCLP because of accounting standards. This recalculation was completed by management and presented to the Board for approval.

The Company's estimate of the Hurdle (see *Defined Terms* section) as at June 30, 2016 is significant.

The last Profit Distribution paid was calculated at December 31, 2012. This resulted in a "reset" of the Hurdle and management's assessment of the restated Hurdle is calculated using December 31, 2012 as the start date.

SUMMARY OF QUARTERLY RESULTS

	2016		2015				2014	
(in thousands, except per share amounts)	**Jun**	Mar	Dec	Sept	Jun	Mar	Dec	Sept
Investment loss	**$ (9,644)**	$ 6,498	$ (26,201)	$ (52,787)	$ (8,590)	$ (23,973)	$(130,119)	$ (10,309)
Net gain (loss) attributable to shareholders	**$ (12,481)**	$ 5,035	$ (28,549)	$ (54,599)	$ (10,428)	$ (25,918)	$(137,864)	$ (10,052)
Basic and diluted earnings (loss) per share	**$ (0.13)**	$ 0.05	$ (0.30)	$ (0.56)	$ (0.11)	$ (0.27)	$ (1.41)	$ (0.10)

The Company is not impacted materially by seasonality.

RISK MANAGEMENT

Financial risk management

The Company's activities expose it to certain financial risks during or at the end of the reporting period as described below.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and the Company's investments expose it to this risk. Market risk includes interest rate risk, foreign currency risk and other price risk such as commodity price risk. The sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated - for example, changes in interest rates and changes in foreign currency rates.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to minimal interest rate risk from its interest bearing financial instruments as they typically have short-term maturities. The Company is not exposed to interest rate risk on its Facility as the interest rate is fixed over the term of the Facility.

Through the equity portion of some of its investments, the Company is also indirectly exposed to interest rate risk.

As at June 30, 2016, the Company had a Facility with a carrying value of $17.7 million (December 31, 2015: $13.6 million). The Facility carries a fixed interest rate of 8% and matures November 11, 2016. As at the date hereof, the outstanding balance of the Facility is approximately $16.6 million. For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A. The Company may be required to monetize a portion of its investments, subject to market conditions, or obtain capital from other sources, to maintain current operations and/or repay the Facility.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has exposure to foreign currency risk due to the effects of changes in foreign exchange rates related to certain U.S. denominated investments and cash and cash equivalents. The Company is also indirectly exposed to foreign exchange risk due to the effects of changes in foreign exchange rates related to the underlying operations of some of its underlying investments. These risks are monitored and evaluated for their effects on cash flows and the benefits of hedging strategies are continuously reviewed.

As at June 30, 2016, approximately $53.5 million or 47.2% (December 31, 2015: $66.1 million or 54.3%) of total assets were invested in investments priced in USD. As at June 30, 2016, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant, the increase or decrease, respectively, in net income for the three and six-months ended June 30, 2016 would have amounted to approximately $2.7 million (for the year-ended December 31, 2015: $3.3 million).

Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Company is subject to price risk through its public equity investments. The Company's private market investments are also subject to price risk as they are impacted by many general and specific market variables.

As at June 30, 2016, a 10% increase/decrease in the value of all public equity and private market investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss in the amount of $10.1 million.

Commodity Price Risk

Commodity price risk is the risk that the fair values or cash flows associated with the Company's investments will vary due to changes in the prices of a particular commodity, e.g. oil, natural gas liquids, natural gas, agricultural crops or livestock. The Company's investee companies may engage in various programs to mitigate exposure to commodity price risk.

The Company is exposed to commodity price risk in respect of several of its investments since their revenues are dependent on the market price of petroleum, natural gas or agricultural products. The price of these commodities is volatile and subject to fluctuations that may have a significant effect on the ability of the investee companies to meet their obligations, capital spending targets or commitments, and expected operational results which in turn impacts their fair values as recorded by the Company.

Credit Risk

Credit risk is the risk that a third party will fail to meet its contractual obligations, which could result in the Company incurring a loss. Trade and other receivables are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk.

The Company has no significant concentrations of credit risk and its exposure to credit risk arises through the Company's cash held primarily through large Canadian financial institutions with credit ratings of AA or higher.

Credit risk is also managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational costs. The Company relies on the Facility to meet current obligations. If the Facility is no longer available for any reason the Company may be forced sell securities it owns at the prevailing market prices. This may adversely affect the NAV and the market price of the Corporation's common shares. For additional information, see the *Financing Activities by the Company* section elsewhere in this MD&A.

The Company invests in securities of private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit these investments when the Company considers it appropriate.

The Company's contractual maturities of financial liabilities as at June 30, 2016 are listed in the *Commitments* section elsewhere in this MD&A.

Concentration Risk

Concentration risk is the risk that any single or group of exposures will have the potential to produce losses large enough to threaten the ability of an entity to continue operating as a going concern. The Company's investment portfolio concentration as at June 30, 2016 is included in the *Key Investments* section elsewhere in this MD&A.

Operational risk

This category encompasses a number of risks. The Company follows prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, management has designed business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the individual businesses and industries and can never be entirely eliminated.

Staffing

The Company operates in a very competitive environment for professional staff and this staff is critical to the organization's ultimate success. Recognizing this, the Company has developed an industry competitive, compensation program including bonuses based on annual performance, benefits and a long-term incentive program to provide for long-term incentive and retention.

SRC common shares

The market price of the Company's common shares could fluctuate significantly as a result of many factors, including the following:

- economic and stock market conditions generally and specifically as they may impact participants in the investment fund industry;
- our earnings and results of operations and other developments affecting the business;
- changes in financial estimates and recommendations by securities analysts following SRC's common shares;
- earnings and other announcements by, and changes in market evaluations of, participants in the investment fund industry;
- changes in business or regulatory conditions affecting participants in the investment fund industry; and
- trading volume of SRC's common shares.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance of such companies. Accordingly, the market price of the Company's common shares may decline even if SRC's operating results or prospects have not changed.

Confidentiality of Information

Confidentiality is essential to the success of the Company's business, and it strives to consistently maintain the highest standards of trust, integrity and professionalism. Information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties.

Conflicts of Interest

The Company has a number of policies with respect to employee personal trading. Employees may not trade any of the securities held or being considered for investment by the Company. In addition, employees must receive prior approval before they are permitted to buy or sell any securities. Speculative trading is strongly discouraged. All employees must comply with the Company's Code of Ethics. The code establishes strict rules for professional conduct including the management of conflicts of interest. The Company also has a standing Conflict Resolution Committee composed solely of the independent directors of the Company. The Conflict Resolution Committee is responsible for making recommendations to the Board regarding matters in respect of which those members of the Board who are nominees of SII, may have a conflict of interest due to their relationship with SII.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has designed or caused to be designed under management's supervision, disclosure controls and procedures that provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. In conducting this evaluation, management has considered, among other things, the corporate charter and policies of the Company, including the Company's disclosure policy.

Management is also responsible for the fact that internal controls over financial reporting are designed, or caused to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has engaged an independent advisory and accounting firm to assist management in conducting the evaluation and suggest best practices when they are not being applied and also to test the key controls within the material financial cycles. This evaluation is done under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO").

Although the officers of the Company do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud, based on their evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures and internal controls over financial reporting are effectively designed for the three-months ended June 30, 2016. There were no significant changes in the Company's internal controls over financial reporting that occurred during the three-months ended June 30, 2016, that have materially affected, or are reasonably likely to have materially affected, the Company's internal controls over financial reporting. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments by management represent an integral component of the Financial Statements prepared in conformity with IFRS. The estimates made in the Financial Statements reflect management's judgments based on past experiences, present conditions and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time the Financial Statements were prepared. Other than explained below, please refer to Note 2 of the Financial Statements for details on critical accounting estimates.

Fair value of investments

The Company's investments are recorded in the Consolidated Statements of Financial Position at fair value. Management and the Board use their judgment to select a variety of methods and make assumptions that are not always supported by quantifiable market prices or rates. Judgment is required in order to determine the appropriate valuation methodology under this standard and subsequently in determining the inputs into the valuation model used. These judgments include making assessments of the future earnings potential of investee companies, appropriate earnings multiples to apply, and adjustments to comparable multiples. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates in these Financial Statements. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these Financial Statements and the differences may be material. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values of various assets and liabilities. The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets.

Financial assets and liabilities that are not measured at fair value on the Consolidated Statements of Financial Position are represented by cash and cash equivalents, trade and other receivables, credit facility and trade and other payables. Due to their short-term nature and low credit risk, the fair values of these financial assets and liabilities approximate their carrying amounts.

Determination of investment entity status

The most significant judgment made in preparing the Financial Statements is the determination that the Company is an investment entity. In accordance with IFRS 10, an investment entity is an entity that: "obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis." In determining its status as an investment entity, the most significant judgments made include the determination by the Company that its investment-related activities with subsidiaries, other than SRP, do not represent a separate substantial business activity and that fair value is the primary measurement attribute used to monitor and evaluate substantially all of its investments.

Stock-based compensation

Equity compensation through the Trust can only be granted to employees and directors when the Company is permitted to purchase its own shares through the TSX. From time-to-time, equity compensation is approved during a period of regulatory blackout which requires management to estimate the number of shares that will ultimately be granted as equity compensation.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

There are no standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a material impact on the Company.

NON-IFRS FINANCIAL MEASURES

This MD&A uses the terms "NAV", "NAV per share", "Working Capital", "Discount to NAV", and "Cash Flow Netbacks" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to help evaluate its performance and liquidity as well as to assess potential investments and acquisitions. The Company considers these metrics to be key performance measures as it demonstrates the Company's ability to generate funds necessary to fund future growth through capital investment. These non-IFRS measures should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS.

ADVISORY

Forward-Looking Information

Certain statements in this MD&A, and in particular the "Business Objectives and Strategy" and "Outlook" sections, contain forward-looking information (collectively referred to herein as the "Forward-Looking Statements") within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify Forward-Looking Statements. In particular, but without limiting the forgoing, this MD&A contains Forward-Looking Statements pertaining to: (i) generation of long-term superior returns on capital, risk management and wealth preservation; (ii) SRC's four key business objectives, the strategies it is undertaking to accomplish such objectives and the anticipated benefits from such objectives; (iii) expectations regarding monetizations of investments; (iv) management's belief that generating profits will provide the liquidity to sustain its investment operations, make new investments and support existing investments; (v) the anticipated benefits of an enhanced capital position; (vi) management's belief that the current discount to NAV is not permanent and the Company's stock price will again approach intrinsic value; (vii) as the discount to NAV narrows to a more reasonable range, the Company believes that opportunities to secure new capital may present themselves; (viii) management's focus on monetizing mature investments, conserving capital and helping the existing portfolio companies to position themselves to emerge from the downturn in the best position to capitalize on the next upswing in the commodities cycle; (ix) the potential for increased oil, gas and coal prices and recovery in those sectors; (x) SRC's continued exploration of alternatives to exit its investment in Union Agriculture; (xi) the investee companies' oil and natural gas reserves; and (xii) expectations regarding the Company's continued financial position.

Although SRC believes that the Forward-Looking Statements are reasonable, they are not guarantees of future results, performance or achievements. A number of factors or assumptions have been used to develop the Forward-Looking Statements, including: (i) energy markets and the price of oil, natural gas liquids and natural gas will be higher in the future; (ii) the continued availability of quality management; (iii) the effects of regulation and tax laws of governmental agencies will not materially change; (iv) the ability to obtain financing on acceptable terms will continue to be available; and (iv) those estimates listed herein under the heading "Critical Accounting Estimates and Judgments". Actual results, performance or achievements could vary materially from those expressed or implied by the Forward-Looking Statements should assumptions underlying the Forward-Looking Statements prove incorrect or should one or more risks or other factors materialize, including: (i) general economic, market and business conditions; (ii) market volatility that would affect the ability to enter or exit investments; (iii) commodity price fluctuations and uncertainties; (iv) risks associated with the Facility; (v) risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to reserves, production, costs and expenses, and health, safety and environmental risks); (vi) risks associated with the land contract drilling industry in general (e.g., dependence on the oil and gas industry; construction delays; the inability to secure rig contracts and loss of customers; and operational hazards); (vii) risks associated with the mining industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to reserves, production, costs and expenses, and health, safety and environmental risks); (viii) risks associated with the farming industry in general (e.g., weather risks, operational risks in production; the uncertainty of estimates and projections related to livestock); (ix) risks associated with the food manufacturing and retail business in general (e.g., a rise in the cost of inputs, a drop in pricing and/or sales volumes, food safety); (x) the uncertainty of reserves and resources; (xi) changes in environmental and other regulations; (xii) the ability of SRC to repurchase its securities will be limited by applicable corporate law; (xiii) those risks disclosed herein under the heading "Risk Management"; and (ix) those risks described under the heading "Risk Factors" in SRC's AIF dated March 6, 2016. The Forward-Looking Statements speak only as of the date hereof, unless otherwise specifically noted, and SRC does not assume any obligation to publicly update any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable Canadian securities laws.

ABBREVIATIONS

$	Canadian dollars
$000s	thousands of Canadian dollars

DEFINED TERMS

- **"2015 NCIB"** means the Normal Course Issuer Bid that commenced September 10, 2015 and expires on September 9, 2016.
- **"AIF"** means Annual Information Form dated March 4, 2016 which may be accessed at www.sedar.com, and may also be found on the Company's website at www.sprottresource.com.
- **"Arrangement"** means the plan of arrangement involving Long Run, Calgary Sinoenergy Investment Corp. and the Long Run securityholders.
- **"Beneficiary"** means an employee or director of the Company who is a member of the EPSP.
- **"Beretta Farms"** means Beretta Farms Inc., a Toronto, Canada private based vertically integrated food business focused on natural and organic beef, chicken and other products to retail and home delivery consumers.
- **"Board"** means board of directors of the Company.
- **"BOE"** means barrel of equivalent.
- **"CAD"** means Canadian dollar(s).
- **"CEO"** means Chief Executive Officer.
- **"CFO"** means Chief Financial Officer.
- **"CPM"** means Canadian Premium Meats Inc.
- **"Cash Flow Netbacks"** means oil and gas sales, less royalties, production costs, general and administrative expenses, interest expense, realized derivative gains and losses, and transaction costs calculated on a per boe basis.
- **"Company"** means Sprott Resource Corp. and its subsidiaries and affiliates.
- **"Corsa Coal"** means Corsa Coal Corp., a Canadian public company in the business of mining, processing and selling metallurgical and thermal coal, as well as actively exploring, acquiring and developing resource properties that are consistent with its existing coal business.
- **"Deloitte"** means Deloitte LLP.
- **"Delphi Energy"** means Delphi Energy Corp.
- **"Diamond Willow Organics"** means Diamond Willow Organics (2012) Ltd.
- **"Discount to NAV"** means the discount between the Company's NAV per share and the Company's closing stick price on the period-end date
- **"E&P"** means a company in the business of providing exploration and production services.
- **"Edmonton Par"** means the benchmark for conventionally produced light sweet crude for western Canada.
- **"El Tejar"** means 100% of the subsidiaries of the El Tejar Group in Uruguay that were acquired by UAG on March 28, 2014.
- **"EOR"** means enhanced oil recovery.
- **"EPSP"** means the employee profit sharing plan of the Company.
- **"EU"** means the European Union.
- **"FVTPL"** means fair value through profit or loss.
- **"Facility"** means the credit facility the Company has in place with Sprott Resource Lending Corp.

  "Financial Statements" means the Company's unaudited condensed interim consolidated financial statements for the six-months ended June 30, 2016 and 2015, including the notes thereon.
- **"G&A"** means general and administrative expenses.
- **"Hurdle"** means (a) the pre-tax profits of the Company for the year minus (b) the average quarterly Net Asset Value of the Company for

the year multiplied by the percentage return of the Index.

- "**IASB**" means International Accounting Standards Board.
- "**ICD**" means Independence Contract Drilling, Inc., a U.S. oil services company specializing in the manufacture and operation of oil and natural gas drilling rigs, which became a public company effective August 8, 2014.
- "**IFRS**" means International Financial Reporting Standards.
- "**IFRS Amendments**" means the Amendments, IFRS 9 and IAS 28.
- "**Index**" means the Canadian 30-Year Generic Bond Index (up to a maximum of 12%).
- "**InPlay Oil**" means InPlay Oil Corp., a Canadian private energy exploration and development company based in Calgary, Alberta.
- "**Long Run**" means Long Run Exploration Ltd., a Canadian public company engaged in the development, acquisition, exploration and production of oil and natural gas in western Canada.
- "**MD&A**" means the Company's management's discussion and analysis.
- "**MSA**" means the amended and restated Management Services Agreement between SRC and SCLP.
- "**Managing Partner**" means Sprott Resource Consulting Limited Partnership, an affiliate of SCLP.
- **"Market Value Covenant"** means that the Facility provides that it shall be an event of default if the market value of the publicly traded securities owned by the Company is less than three times the total amount drawn under the Facility.
- **"Maturity Date"** means November 11, 2016 which is the date that the Facility matures.
- "**NAV**" means net asset value.
- **"NAV per share"** means the Company's NAV divided by the number of the Company's common shares that are issued and outstanding.
- "**OEF**" means One Earth Farms Corp., a Toronto, Canada based private vertically integrated food business focused on natural and organic protein-based food production and retail.
- "**OEOG**" means One Earth Oil and Gas Inc., a private Canadian company engaged in the development of oil and gas opportunities on and adjacent to aboriginal lands in Alberta, Canada.
- "**OSC**" means the Ontario Securities Commission.
- "**Partnership Agreement**" means the amended and restated partnership agreement between SRC and the Managing Partner.
- **"PHP"** means Prairie Heritage Producers.
- "**Preliminary Prospectus**" means Union Agriculture's October 16, 2015 filing of a non-offering preliminary prospectus.
- "**Profit Distribution**" means an amount agreed to be paid under the Partnership Agreement to an affiliate of SCLP equal to 20% of: (a) the pre-tax profits of the Company for the year minus (b) the average quarterly Net Asset Value of the Company for the year multiplied by the percentage return of the Index.
- "**Quarterly Net Asset Value**" means the average of the Net Asset Value of the Partnership as at the end of such fiscal quarter and the Net Asset Value of the Partnership as at the end of the immediately preceding fiscal quarter.
- "**RII**" means R.I.I. North America Inc., a privately held Calgary-based upstream oil company that owns the North American intellectual property rights for the patented STRIP (Solvent Thermal Resource Innovations Process) enhanced oil recovery (EOR) technology.
- "**SCLP**" means Sprott Consulting Limited Partnership, the management company of SRC which provides active management, consulting and administrative services.
- "**SCP**" means the trading symbol for SRC which is listed on the TSX.
- "**SII**" means Sprott Inc., and its subsidiaries and affiliates
- "**SRC**" means Sprott Resource Corp. and its subsidiaries and affiliates.
- **"SRLC"** means Sprott Resource Lending Corp.
- "**SRP**" means Sprott Resource Partnership.
- "**SEDAR**" means System for Electronic Document Analysis and Retrieval.
- **"STRIP"** means the patented Solvent Thermal Resource Innovations Process.

- **"Stonegate"** means Stonegate Agricom Ltd., an affiliate of SRC which is a Canadian public company developing the Mantaro Phosphate Project in Peru and the Paris Hills phosphate and vanadium project in Idaho, U.S.
- **"Trust"** means the Company's equity incentive plan (also see EPSP).
- **"TSX"** means the Toronto Stock Exchange.
- **"Union Agriculture"** means Union Agriculture Group, a private agriculture business operating in Uruguay with vertically integrated operations in crops, specialty crops and livestock.
- **"USD"** means United States dollar(s).
- **"Working Capital"** means cash and cash equivalents together with its trade and other receivables less its total liabilities.
- **"WTI"** means West Texas Intermediate, the reference price paid in United States dollars at Cushing, Oklahoma for crude oil of standard grade.

ADDITIONAL INFORMATION

Additional information related to the Company, including the Company's AIF, is available for viewing on SEDAR at www.SEDAR.com and on the Company's website at www.sprottresource.com.