

## Management Report of Fund Performance (in U.S. dollars)

### Investment Objective and Strategies

Sprott Physical Gold Trust (the “Trust”) is a closed-end mutual fund trust organized under the laws of the Province of Ontario, Canada, created to invest and hold substantially all of its assets in physical gold bullion. The Trust seeks to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical gold bullion without the inconvenience that is typical of a direct investment in physical gold bullion. The Trust intends to achieve its objective by investing primarily in long-term holdings of unencumbered, fully allocated, physical gold bullion and does not speculate with regard to short-term changes in gold prices.

The units of the Trust are listed on the New York Stock Exchange (“NYSE”) Arca and the Toronto Stock Exchange (“TSX”) under the symbols “PHYS” and “PHYS.U”, respectively.

### Risks

The risks of investing in the Trust are detailed in the Trust’s annual information form dated March 28, 2018. There have been no material changes to the Trust since inception that have affected the overall level of risk. The principal risks associated with investing in the Trust are the price of gold, the net asset value and/or the market price of the units, the purchase, transport, insurance and storage of physical gold bullion, liabilities of the Trust, and redemptions of units.

### Results of Operations

For the year ended December 31, 2017, the total change in unrealized gains on physical gold bullion amounted to \$268.5 million compared to the change in unrealized gains of \$164.6 million during the same period in 2016.

During the year ended December 31, 2017, the Trust issued 765,300 units for gross proceeds of \$8,057,731 and net proceeds of \$8,017,128 after fees and expenses. During that period, 52,490 units were redeemed for cash at a total cost of \$465,938 and 6,413,445 units were redeemed for gold bullion.

The value of the net assets of the Trust as of December 31, 2017 was \$2,259.6 million or \$10.67 per unit, compared to \$2,061.7 million or \$9.48 per unit as at December 31, 2016. The Trust held 1,733,162 ounces of physical gold bullion as of December 31, 2017, compared to 1,786,167 ounces of physical gold bullion as at December 31, 2016. As at December 31, 2017, the spot price of gold was \$1,303.05 an ounce compared to a price of \$1,152.27 an ounce as at December 31, 2016. The Trust returned 12.6% compared to the return on spot gold of 13.1% for the period from January 1, 2017 to December 31, 2017.

The Trust’s net asset value per unit on December 31, 2017 was \$10.67 compared to \$9.48 per unit as at December 31, 2016. The units closed at \$10.59 on the NYSE Arca and \$10.58 on the TSX on December 31, 2017 compared to closing prices of \$9.39 on the NYSE Arca and \$9.41 on the TSX on December 31, 2016. The units are denominated in U.S. dollars on both exchanges. During the period from January 1, 2017 to December 31, 2017, the Trust’s units traded on the NYSE Arca at an average discount to net asset value of approximately -0.4%.

### Recent Developments

On January 18, 2016, Sprott Physical Gold Trust successfully completed the offer to acquire all of the outstanding units of Central GoldTrust (“GTU”) on a Net Asset Value (“NAV”) to NAV exchange basis, thereby adding \$1.1 billion (\$CAD) of new assets under management to the Sprott Asset Management (“the Manager”).

On May 6, 2016, the Trust entered into a sales agreement with Cantor Fitzgerald & Co. whereby the Trust may, in its sole discretion and subject to its operating and investment restrictions, offer and sell trust units through an “at the market offering” program (the “ATM Program”) in transactions on the NYSE Arca or any other existing trading market for the trust units in the United States or to or through a market maker in the United States pursuant to a registration statement filed with the U.S. Securities and Exchange Commission and a prospectus supplement to a short form base shelf prospectus filed with the Ontario Securities Commission, as principal regulator, and with each of the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada. During the year ended December 31, 2017, the Trust sold 765,300 units through the ATM Program, compared to 3,941,398 for the same period in 2016.

## OPERATING EXPENSES

The Trust pays its own operating expenses, which include, but are not limited to, audit, legal, trustee fees, unitholder reporting expenses, general and administrative fees, filing and listing fees payable to applicable securities regulatory authorities and stock exchanges, storage fees for the physical gold bullion, costs incurred in connection with the Trust's continuous disclosure public filing requirements and investor relations and any expenses associated with the Independent Review Committee of the Trust. Operating expenses for the year ended December 31, 2017 amounted to \$2,104,238 (not including applicable Canadian taxes) compared to \$1,975,743 for the same period in 2016. The increase in operating expenses over the period was primarily due to higher unitholder reporting costs partially offset by lower listing and regulatory filing fees. Operating expenses for the year ended December 31, 2017 amounted to 0.09% of the average net assets during the period on an annualized basis, compared to 0.09% for the same period in 2016.

## Related Party Transactions

### MANAGEMENT FEES

The Trust pays the Manager a monthly management fee equal to  $\frac{1}{12}$  of 0.35% of the value of the net assets of the Trust (determined in accordance with the Trust's trust agreement), plus any applicable Canadian taxes. The management fee is calculated and accrued daily and payable monthly in arrears on the last day of each month. For the year ended December 31, 2017, the Trust incurred management fees of \$7,698,892 (not including applicable Canadian taxes) compared to \$7,624,214 for the same period in 2016.

## Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the years shown.

Net assets per unit<sup>1</sup>

|                                                         | December 31,<br>2017 | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2012 |
|---------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                                         | \$                   | \$                   | \$                   | \$                   | \$                   | \$                   |
| Net assets per Unit, beginning of period                | 9.48                 | 8.77                 | 9.84                 | 10.06                | 14.00                | 13.17                |
| <b>Increase (decrease) from operations<sup>2</sup>:</b> |                      |                      |                      |                      |                      |                      |
| Total revenue                                           | –                    | –                    | –                    | –                    | –                    | –                    |
| Total expenses                                          | (0.05)               | (0.05)               | (0.05)               | (0.05)               | (0.05)               | (0.06)               |
| Realized gains (losses) for the period                  | (0.01)               | (0.06)               | (0.23)               | (0.30)               | (0.02)               | –                    |
| Unrealized gains (losses) for the period                | 1.25                 | 0.78                 | (0.76)               | 0.15                 | (3.86)               | 0.64                 |
| <b>Total increase (decrease) from operations</b>        | <b>1.19</b>          | <b>0.67</b>          | <b>(1.04)</b>        | <b>(0.20)</b>        | <b>(3.93)</b>        | <b>0.58</b>          |
| <b>Net assets per Unit, end of period</b>               | <b>10.67</b>         | <b>9.48</b>          | <b>8.77</b>          | <b>9.84</b>          | <b>10.06</b>         | <b>14.00</b>         |

1 This information is derived from the Trust's financial statements.

2 Net assets per unit is calculated based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period shown. This table is not intended to be a reconciliation of the beginning to ending net assets per unit.

## Ratios and Supplemental Data

|                                           | December 31,<br>2017 | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2012 |
|-------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total net asset value (000s) <sup>1</sup> | \$2,259,584          | \$2,061,747          | \$1,236,405          | \$1,547,158          | \$1,895,056          | \$2,734,847          |
| Number of Units outstanding <sup>1</sup>  | 211,843,385          | 217,544,020          | 140,981,566          | 157,290,493          | 188,353,275          | 195,368,753          |
| Management expense ratio <sup>2</sup>     | 0.47%                | 0.46%                | 0.48%                | 0.51%                | 0.45%                | 0.42%                |
| Trading expense ratio <sup>3</sup>        | Nil                  | Nil                  | Nil                  | Nil                  | Nil                  | Nil                  |
| Portfolio turnover rate <sup>4</sup>      | 0.32%                | 0.10%                | Nil                  | Nil                  | Nil                  | Nil                  |
| Net asset value per Unit                  | \$10.67              | \$9.48               | \$8.77               | \$9.84               | \$10.06              | \$14.00              |
| Closing market price – NYSE Arca          | \$10.59              | \$9.39               | \$8.73               | \$9.77               | \$9.96               | \$14.21              |
| Closing market price – TSX                | \$10.58              | \$9.41               | \$8.71               | \$9.92               | \$9.98               | \$14.24              |

1 This information is provided as at the date shown, as applicable.

2 Management expense ratio ("MER") is based on total expenses (including applicable Canadian taxes and excluding commissions and other portfolio transaction costs) for the stated period and is expressed as annualized percentages of daily average net asset value during the period.

3 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period shown. Since there are no direct trading costs associated with physical bullion trades, the trading expense ratio is nil.

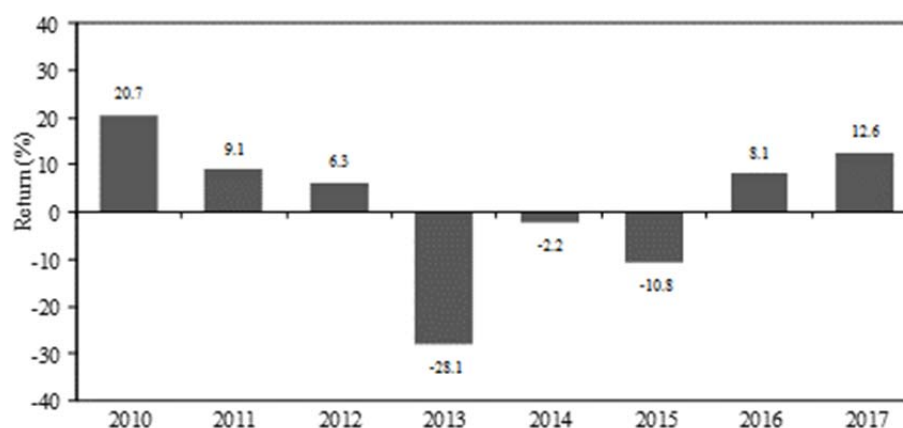
4 The Trust's portfolio turnover rate indicates how actively the Trust's portfolio adviser trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher the Trust's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Trust.

## Past Performance

The indicated rates of return are the historical total returns including changes in unit values and assume reinvestment of all distributions in additional units of the Trust. These returns do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that may reduce returns. Please note that past performance is not indicative of future performance. All rates of returns are calculated based on the Net Asset Value of the units of the Trust.

## Year-by-Year Returns

The bar chart below indicates the performance of the Trust units for the years shown. The chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each period.



## Summary of Investment Portfolio

As of December 31, 2017

|                              | Ounces    | Fair Value<br>per ounce<br>\$ | Cost<br>\$    | Fair<br>Value<br>\$  | % of<br>Net Asset<br>Value<br>% |
|------------------------------|-----------|-------------------------------|---------------|----------------------|---------------------------------|
| Physical gold bullion        | 1,733,162 | 1,303.05                      | 2,229,938,338 | 2,258,396,671        | 99.9                            |
| Cash                         |           |                               |               | 1,303,703            | 0.1                             |
| Other Net Liabilities        |           |                               |               | (116,333)            | (0.0)                           |
| <b>Total Net Asset Value</b> |           |                               |               | <b>2,259,584,041</b> | <b>100.0</b>                    |

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Trust.