

Heading into 2017, we were optimistic about the prospects for gold and gold equities for reasons we had noted in our December 2016 communication to you. As the month of January drew to a close, bullion was higher by 5.1% for the month and the S&P/TSX Global Gold Index rallied 10.3%. While bullion ETFs remained in net redemption mode for the month of January, we were heartened to see long gold positions get re-established in the futures market, albeit in cautious quantities. Our fund was well positioned to take advantage of the opportunities we saw in the precious metals space, and as a result advanced by 14.2%, outperforming our benchmark by 3.9% in January.

The current investing landscape continues to be dominated by macro-driven rotational type of markets. The month of January was characterized by mean-reversion across various asset classes. The parabolic spike in global yields normalized somewhat. Broad equity markets in the developed markets consolidated their gains following strong moves higher in November and December. Similarly, currencies normalized somewhat as the U.S. Dollar gave back some of its gains. These moves towards relative normalcy benefited gold.

The move lower in gold following the U.S. election was driven by the market discounting stimulative economic policies by President Trump. The 2016 annual letter from of Seth Klarman's Baupost LPs noted that the market was discounting all the positives out of the Trump presidency and none of the negatives. It is beginning to appear now that the markets are slowly beginning to dial back their expectations. Nowhere is this more apparent than in the bond market. Real rates, which had moved markedly higher towards the end of 2016 are beginning to drift lower. This has helped gold. We are also seeing winds of protectionism pick up. It is difficult for us to imagine a scenario where a wide-scale trade-war is not inflationary.

In terms of our portfolio, we have continued to allocate towards high quality companies which can withstand the impact of gold price fluctuations. These high-quality names, as always, form the backbone of our portfolio. However, we have also layered on two separate derivative strategies. One is aimed at reducing portfolio volatility during times of a downdraft in gold prices. We have also deployed derivative strategies that are aimed at improving upside capture in a "goldilocks" scenario where gold experiences strong moves higher. In all cases, the structures have been layered in on a zero-cost basis or better.

For the month of January, the top contributors to the fund were Kirkland Lake Gold, Pretium Resources and B2Gold Corp. Kirkland Lake reported strong fourth quarter production, with full year production exceeding 2016 guidance. The company has a strong balance sheet and has been reporting high grade extensional drill results at its flagship Australian mine. Pretium benefited from reserve update at its Brucejack project in B.C. Drill density increased, grades increased and improved confidence in the reserve and resource model. B2Gold had no news, but benefited from an organic growth profile and significant exploration upside.

The top detractors from the fund were Detour Gold Corporation, Continental Gold and Yamana Gold. Detour Gold Corporation continued suffering from an earlier announcement of a potential permitting delay at an important satellite deposit. In the event of a meaningful permitting delay, near-term annual production and cash flow will likely be lower than anticipated. Continental Gold was flat in the month despite receiving final permits at its Buritica project in Colombia and also announcing a debt facility providing a significant portion of required financing and giving the company financial flexibility. Yamana reported an inline fourth quarter, finishing 2016 within guidance both in terms of production and costs.

SPROTT GOLD & PRECIOUS MINERALS FUND

January 2017 Commentary

COMPOUNDED RETURNS (%) AS AT JANUARY 31, 2017¹

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR	15 YR	ANNUALIZED INCEPTION (11/15/01)
SPROTT GOLD & PRECIOUS MINERALS FUND	14.2	14.2	-4.8	-21.6	66.6	12.3	-10.6	-3.3	8.5	9.7
S&P/TSX GLOBAL GOLD TOTAL RETURN INDEX	10.3	10.3	-4.5	-21.6	53.3	6.5	-10.1	-3.1	2.8	3.9



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¹ All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at January 31, 2017; e) 2001 annual returns are from 11/15/01 to 12/31/01. The index is 100% S&P/TSX Global Gold Total Return Index and is computed by Sprott Asset Management LP based on publicly available index information.

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