SPROTT CANADIAN EQUITY FUND

January 2017 Commentary

The Sprott Canadian Equity Fund, Series A returned -1.8% in January. The S&P/TSX Total Return Index returned 0.8% for the month.

The Fund entered 2017 with a market weight in energy as we are firm believers that the supply and demand economics for the underlying commodities (specifically crude) remains favourable. Post the 2014/2015 collapse in the global energy complex global supply was constrained while demand remained fairly steady. The Organization of the Petroleum Export Countries (OPEC) agreed to supply cuts and prices have responded positively throughout most of 2016 and early 2017. With that being said the energy sector and our exposure took a breather in January and was the bulk of the losses for the Fund.

Most of our energy exposure is through Canadian listed Exploration and Production companies (E&P) which underperformed other global energy stocks in January for very country specific reasons. There has been a great deal of uncertainty pertaining to the new U.S. Administration's outlook for the North American Free Trade Agreement (NAFTA) and a potential border adjustment tax for all foreign imports into the U.S. These adjustments **could** impact companies that export goods into the U.S., but the market is currently fixated on the impact to Canadian oil and gas producers. This uncertainty resulted in a broad-based sell-off of Canadian energy equities.

To highlight the divergence of Canadian equities versus those abroad, just look at the total monthly return of the XEG (S&P/TSX Capped Energy Index ETF) which returned -8.7% in January when compared to the IYE (U.S. Energy ETF) and the IXC (Global Energy ETF) which returned -3.4% and -2.8%. Although we can never accurately forecast a government policy change or its impacts on a specific industry we can look at the facts. The U.S. energy industry has spent a considerable amount of capital on infrastructure designed to receive Canadian crudes which tend to be heavier and more sour than domestic products. It would likely be difficult and very capital intensive for U.S. refiners to retrofit their infrastructure for less Canadian crudes. It might also place greater dependence on crudes from other foreign and less trade friendly nations with the U.S. from Central/South America, Africa and the Middle East. To conclude, the selloff of Canadian E&P's has created an opportunity to add to some of our higher quality positions.

The Fund is underweight Canadian Consumer Discretionary; specifically retail however, our only Canadian retail position contributed to the Fund's losses in January. The traditional 'brick and mortar' retail model has come under pressure in recent years as the bears have focused on lost share to the online channel. Given the structural changes across the sector and share losses of traditional retail channels to online have created a valid reason for investors to consider their exposure to this group. However, there are those retailer businesses (our investment in particular) that have other levers to drive value for shareholders. Our retail investment in the Fund is a good (not great) retailer by relative standards. Its Same Store Sales (SSS) metrics were better than the sector average over the holiday season. Although its core retailing business has produced lower earnings in 2016 (compared to 2015) the business has acquired significant asset value (hidden to most casual market observers) in recent years. We would expect the management team (and large investors) will look for ways to unlock some of this 'hidden' value in 2017 which if our analysis is correct, could reward investors significantly.

There were some positive performers in the month as well. The Fund made an investment in AutoCanada (ACQ.TO), the largest publicly traded auto dealership group in Canada in the fall. At the time of our investment, shares were pricing in a dismal economic backdrop in the company's core markets (Alberta and B.C.), a business that was generating poor financial results for the prior few quarters and a rising interest in the short position. The aforementioned created a below peer valuation even compared to those with exposure to other North American oil-based economies. Given the low valuation we saw as an attractive entry point to play a Western Canadian economic recovery in shares of ACQ. The stock performed well in Q4 and throughout January and positively contributed to the Fund's return. The company announced a small tuck-in acquisition of an Ontario-based dealership which helped to diversify from its core markets as well as benefitting from better auto trends in Western Canada. As the valuation caught up to and even surpassed its peers we took the opportunity to crystallize our profits.

Another solid contributor in January was our investment in North American Energy Partners (NOA), a leading player in earth moving and construction services to the energy industry. Our investment thesis was simple; the company is well run, management is aligned and had been buying NOA shares in 2016, the balance sheet was in good shape and the utilization across its fleet had been improving. At the time of purchase (mid $3's) the stock had traded at a very deep discount to its tangible book value (TBV), creating a very good buying opportunity. Since our initial investment the shares have almost doubled in value as the company has announced new contract wins and has extended contracts from existing customers. Like ACQ, NOA was a good company that caught in the negative sentiment around the energy sector in 2014 and 2015. We always like finding companies that are executing well despite the negative sentiment around the industries in which they operate. We have often been able to find good investments under these circumstances.

If you recall, we made a few investments in some SPAC's (Specialty Purpose Acquisition Companies). These are 'blank cheque' companies backed by successful management teams with track records of identifying and acquiring good businesses at attractive prices. One of the SPAC's we had invested in previously was called Quinpario Acquisition Corp. (QPAC), initially backed by Jeffrey Quinn, a business builder previously involved in several successful specialty chemical organizations. In most SPAC transactions investors are sold a unit that includes 1 common share and 1 purchase warrant. Some investors (like ourselves) will often sell their common shares (for a profit in our experience with QPAC) and retain their warrants for a 'free' option that management will be able to find an attractive investment. Well in January, QPAC announced a deal which was well received by investors and the value of our warrants increased in value by more than three times since the end of 2016.

The beginning of 2016 did not get off to the start that we ideally hoped for. But as you know from reading our letters monthly, we are not managing the portfolio on a month by month basis. Many of our core holdings have been well researched and analyzed and could take several quarters or even years to yield the returns we have forecasted. We entered 2017 with a decent weighting in energy and Canadian equities in general. We have taken the recent strength in the U.S. markets to reduce our exposure as equities look to be fairly priced. Our market exposure is reasonable at approximately 75% and the liquidity of the Fund remains healthy.

Thank you for your continued support and confidence in the fund.

Jon Wiesblatt,
Portfolio Manager

James Bowen,
Portfolio Manager

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COMPOUNDED RETURNS (%) AS AT JANUARY 31, 2017[1]

	1 MTH	YTD	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR	15 YR	ANNUALIZED INCEPTION (09/26/97)
SPROTT CANADIAN EQUITY FUND, SERIES A	-1.8	-1.8	-0.6	-6.0	9.0	-9.5	-17.6	-8.3	2.6	7.9
S&P/TSX COMPOSITE TRI	0.8	0.8	4.8	7.0	23.6	7.1	7.5	4.7	7.5	6.6

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SPROTT ASSET MANAGEMENT

[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) 1997 annual returns are from 09/26/97 to 12/31/97. The index is 100% S&P/TSX Composite TRI and is computed by Sprott Asset Management LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: commodity risk; concentration risk; credit risk; currency risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; liquidity risk; market risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; small company risk; tax risk.

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