SPROTT RESOURCES HOLDINGS INC.

(FORMERLY ADRIANA RESOURCES INC.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

(EXPRESSED IN CANADIAN DOLLARS)

Deloitte.

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Independent Auditor's Report

To the Shareholders of Sprott Resource Holdings Inc. (formerly Adriana Resources Inc.)

We have audited the accompanying consolidated financial statements of Adriana Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Adriana Resources Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 3, 2017

Sprott Resource Holdings Inc.
(Formerly Adriana Resources Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	**$ 27,599,089**	$ 32,555,771
Investment in equity securities	**23,750**	625
Other receivables	**289,652**	41,810
Prepaid expenses	**-**	22,721
Total current assets	**27,912,491**	32,620,927
Non-current assets		
Investment in Lac Otelnuk Mining Ltd. (note 4)	**5,754,815**	2,939,093
Property, plant and equipment (note 6)	**-**	14,891
Total assets	**$ 33,667,306**	$ 35,574,911
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 746,006**	$ 76,638
Equity		
Share capital (note 8)	**130,005,004**	130,005,004
Capital reserves	**7,755,611**	7,683,947
Accumulated deficit	**(104,839,315)**	(102,190,678)
	32,921,300	35,498,273
Total equity and liabilities	**$ 33,667,306**	$ 35,574,911

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

Subsequent event (note 15)

Approved on behalf of the Board:

"Terrence Lyons", Chairman

"Donald Charter", Director

Sprott Resource Holdings Inc.
(Formerly Adriana Resources Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Expenses		
Changes in fair value of financial assets classified as fair value through profit or loss	**$ (23,125)**	$ 1,250
General and administrative (note 13)	**1,199,260**	2,761,775
Foreign exchange loss/(gain)	**3,339**	(2,487)
Share-based payment expense (note 8(c))	**71,664**	55,448
Share of loss of Lac Otelnuk Mining Ltd. (note 4)	**238,729**	38,153,607
Professional and consulting fees	**205,412**	418,513
Transaction costs (note 14)	**1,292,183**	-
Loss for the year before other items	**(2,987,462)**	(41,388,106)
Interest income	**338,825**	435,962
Net loss for the year from continuing operations	**(2,648,637)**	(40,952,144)
Loss for the year from discontinued operations (note 7)	**-**	(8,843,458)
Net loss and total comprehensive loss for the year	**$ (2,648,637)**	$ (49,795,602)
Loss from continuing and discontinued operations per common share (basic and diluted)	**$ (0.02)**	$ (0.32)
Loss from continuing operations per common share (basic and diluted)	**$ (0.02)**	$ (0.26)
Weighted average number of common shares outstanding	**157,554,238**	157,554,238

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

Sprott Resource Holdings Inc.
(Formerly Adriana Resources Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Operating activities		
Net loss for the **year**	**$ (2,648,637)**	$ (49,795,602)
Adjustments for:		
Interest income	**(338,825)**	(435,962)
Amortization	**14,891**	8,668
Share of loss of Lac Otelnuk Mining Ltd.	**238,729**	38,153,607
Share-based payment expense	**71,664**	55,448
Change in fair value of financial assets classified as fair value through profit or loss	**(23,125)**	1,250
Loss on disposal of Brazilian Subsidiaries	**-**	8,238,386
Changes in non-cash working capital items:		
Other receivables and prepaid expenses	**(225,121)**	37,687
Accounts payable and accrued liabilities	**669,368**	(508,042)
Net cash used in operating activities	**(2,241,056)**	(4,244,560)
Investing activities		
Property, plant and equipment expenditures	**-**	(1,449)
Cash interest received	**338,825**	435,962
Investment in Lac Otelnuk Mining Ltd.	**(3,054,451)**	-
Net cash (used in) provided by investing activities	**(2,715,626)**	434,513
Net change in cash and cash equivalents	**(4,956,682)**	(3,810,047)
Cash and cash equivalents, beginning of year	**32,555,771**	36,365,818
Cash and cash equivalents, end of year	**$ 27,599,089**	$ 32,555,771

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

Sprott Resource Holdings Inc.
(Formerly Adriana Resources Inc.)
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital	Capital reserves	Accumulated deficit	Attributable to owners of the Company	Non-controlling interest	Total
Balance, December 31, 2014	**$ 130,005,004**	**$ 7,628,499**	**$ (52,395,075)**	**$ 85,238,427**	**$ (7,548,053)**	**$ 77,690,374**
Share-based payment expense	-	55,448	-	55,448	-	55,448
Disposal of Brazilian subsidiaries	-	-	-	-	7,548,053	7,548,053
Net loss and total comprehensive loss for the year	-	-	(49,795,602)	(49,795,602)	-	(49,795,602)
Balance, December 31, 2015	**$ 130,005,004**	**$ 7,683,947**	**$ (102,190,678)**	**$ 35,498,273**	**$ -**	**$ 35,498,273**
Share-based payment expense	-	71,664	-	71,664	-	71,664
Net loss and total comprehensive loss for the year	-	-	(2,648,637)	(2,648,637)	-	(2,648,637)
Balance, December 31, 2016	**$ 130,005,004**	**$ 7,755,611**	**$ (104,839,315)**	**$ 32,921,300**	**$ -**	**$ 32,921,300**

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

1. Nature of operations

Sprott Resource Holdings Inc. (formerly Adriana Resources Inc. or "ADI") (together with its subsidiaries, “SRHI” or the “Company”) was incorporated under the laws of British Columbia and continued under the *Canada Business Corporations Act*. The Company’s principal holdings are its cash balances and its 40% investment in a joint venture company, Lac Otelnuk Mining Ltd. (“LOM”), formed in January 2012 with a wholly-owned subsidiary of WISCO International Resources Development & Investment Limited (“WISCO”) to develop the Lac Otelnuk iron ore property in Nunavik, Québec (the “Lac Otelnuk Property”). WISCO holds a 60% interest in LOM while SRHI holds the remaining 40% interest. LOM was established to continue the exploration of the Lac Otelnuk and December Lake properties (the “Lac Otelnuk Project”). A feasibility study was completed on March 25, 2015 with respect to the Lac Otelnuk Property (the “Feasibility Study”) and, effective that date, the project was transitioned from an exploration and evaluation asset to a development stage asset in the financial statements of LOM. The Company previously held, through a wholly-owned subsidiary, land associated with a proposed iron ore port facility in Brazil (the “Land”), which subsidiary was sold in November 2015. The Lac Otelnuk Project was placed on care and maintenance in 2015, and SRHI has taken steps to conserve cash and reduce all discretionary expenditures. No new field work was carried out in 2015 and 2016. LOM closed its Montreal technical office in May 2015. Due to the expectation of a sustained reduction in long-term iron ore prices LOM management identified an impairment indicator as at December 31, 2015 and determined that the recoverable amount of the cash generating unit was $7,347,732. Accordingly, SRHI wrote down the carrying value of its investment in LOM to $2,939,093 as at December 31, 2015. During the year ended December 31, 2016, SRHI made an additional investment in LOM of $3,054,451 (note 4).

On February 9, 2017, the Company acquired Sprott Resource Corp. ("SRC") (see note 15) and shareholders of the Company approved a name change to Sprott Resource Holdings Inc.

The Company’s common shares (the “Common Shares”) are listed on the Toronto Stock exchange ("TSX") under the symbol “SRHI”. The Company’s registered head office is 200 Bay Street, Suite 2750, Toronto, ON, M5J 2J2 Canada.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the year ended December 31, 2016.

The consolidated financial statements of the Company for the year ended December 31, 2016 were approved and authorized for issue by the board of directors (the "Board") on March 3, 2017.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, consistent with the Company’s significant accounting policies. These consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements include the investment in associate (40% of LOM) and the accounts of ADI Mining Ltd., the Company’s wholly-owned subsidiary.

Due to rounding, numbers presented may not add up precisely to totals provided.

3. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and, has the ability to use its power to affect the investee's returns.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three above mentioned elements.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of loss and comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intercompany transactions, balances, income and expenses are fully eliminated on consolidation.

(b) Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

3 Summary of significant accounting policies (continued)

(b) Investments in associates (continued)

The requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

(c) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(d) Foreign currencies

The consolidated financial statements are presented in Canadian dollars. The individual financial statements of each entity are presented in their functional currency, which is the currency of the primary economic environment in which the entity operates. The functional currency of all of the Company's entities is the Canadian dollar.

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position and the impact is recorded in the statement of loss and comprehensive loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

(e) Property, plant and equipment

Property, plant and equipment ("PPE") is depreciated over the useful lives of the assets using the straight-line method.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes in estimates arising from the assessment are applied by the Company prospectively.

3 Summary of significant accounting policies (continued)

(f) Share-based payments

Employees (including directors, senior executives and consultants, which meet the definition of an "employee" under IFRS 2 *Share-based Payment (IFRS 2)*) of the Company receive a portion of their remuneration in the form of share-based payment arrangements, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment using the Black-Scholes option pricing model.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date reflecting the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period, and the corresponding amount is reflected in capital reserves.

(g) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are substantively enacted on the date of the statement of financial position.

Deferred income tax is determined using the asset and liability method on temporary differences, at the date of the statement of financial position, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws that currently apply to the year when the asset is expected to be realized or the liability is expected to be settled, as the case may be.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

(h) Income or loss per share

The basic income or loss per share is computed by dividing the net income or loss attributable to the owners of the Company by the weighted average number of common shares outstanding during the period. The diluted income per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the period, if dilutive.

3 Summary of significant accounting policies (continued)

(i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of loss and comprehensive loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method, less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive loss is reclassified to profit or loss.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

(j) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss and comprehensive loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in the statement of loss and comprehensive loss in the period in which they arise.

3 Summary of significant accounting policies (continued)

(k) Impairment of financial assets

The Company assesses at each date of the statement of financial position whether there are indications that a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in the statement of loss and comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

(l) Impairment of non-financial assets

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. An impairment of goodwill, however, is not subsequently reversed.

(m) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

3 Summary of significant accounting policies (continued)

(n) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. Any increase in a provision due solely to the passage of time is recognized as interest expense.

(o) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

(p) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to assessments of the recoverability and carrying value of the investment in LOM and the calculation of share-based payments.

The most significant judgments relate to recoverability of capitalized amounts and the recognition of deferred tax assets.

Adoption of New and Amended Accounting Pronouncements

In 2016, there have been no new or amended accounting pronouncements that have had a material impact on the Company's consolidated financial statements.

3 Summary of significant accounting policies (continued)

Adoption of New and Amended Accounting Pronouncements: Issued but not yet Effective

The Company is currently evaluating the impact of these standards and amendments issued but not yet effective, on its consolidated financial statements:

(i) IFRS 9, *Financial instruments*

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB on July 24, 2014 and will replace IAS 39, "Financial instruments: recognition and measurement" (IAS 39). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

(ii) IFRS 16, *Leases*

IFRS 16, "Leases" (IFRS 16) was issued by the IASB on January 13, 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

4. Investment in LOM

The Lac Otelnuk Property is a large Lake Superior-type taconite deposit located approximately 165 kilometres northwest of Schefferville, in the Nunavik region of northern Québec, and currently consists of 786 mineral claims totalling approximately 531 square kilometres. The December Lake Property is located approximately 65 kilometres from the Lac Otelnuk Property.

During the second quarter of 2015, LOM management determined that various peripheral mining claims on the Lac Otelnuk Property and all of the mining claims held on the December Lake Property would not be renewed as they were determined to be nonessential claims and not necessary for the long-term mine or infrastructure of the Lac Otelnuk Project. As a result, the Company recorded a $397,190 loss being its 40% share of the related writeoff recognized by LOM during the second quarter of 2015. Those mining claims subsequently lapsed.

As at December 31, 2015, due to the expectation of a sustained reduction in long-term iron ore prices an impairment indicator was identified at LOM. LOM management determined that the recoverable amount of the cash generating unit was $7,347,732 reflecting its fair value less costs of disposal. Accordingly, the Company determined the recoverable amount of its investment in LOM at December 31, 2015 to be $2,939,093 and recognized its adjusted share of the LOM loss of $38,153,607 in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2015.

(Expressed in Canadian Dollars)

4. Investment in LOM (continued)

On January 4, 2016, SRHI made an additional investment of $3,054,451 in LOM pursuant to a cash call which amount was taken into consideration in the determination of the recoverable amount of the Company's investment in LOM at December 31, 2015.

SRHI's 40% investment in LOM is summarized as follows:

Balance, December 31, 2014	$ 41,092,700
Share of loss for the year ended December 31, 2015	(38,153,607)
Balance, December 31, 2015	2,939,093
Incremental investment made January 4, 2016	3,054,451
Share of loss for the year ended December 31, 2016	(238,729)
Balance, December 31, 2016	$ 5,754,815

Summarized information with respect to LOM (at 100%) is set out below:

	As at and for the year ended December 31, 2016	As at and for the year ended December 31, 2015
Cash and cash equivalents	$ 7,454,623	$ 5,127,290
Other current assets	42,819	30,209
Non-current assets	6,971,728	6,984,775
Total assets	14,469,170	12,142,274
Total liabilities (current)	82,135	212,866
Net loss and total comprehensive loss for the year ended	(596,823)	(175,490,000)

Property, plant and equipment for LOM (at 100%):

Cost	**For the year ended December , 31, 2016**	**For the year ended December 31, 2015**
Balance, beginning of the year	$ 7,867,194	$ 180,017,236
Additions	-	2,245,998
Refundable tax credit received from Revenue Quebec	-	(915,082)
Impairment of December Lake and Lac Otelnuk claims	-	(992,976)
Capitalized depreciation	-	159,237
Impairment	-	(172,647,219)
Balance, end of the year	$ 7,867,194	$ 7,867,194

(Expressed in Canadian Dollars)

4. Investment in LOM (continued)

Accumulated depreciation	2016	2015
Balance, beginning of the year	$ 882,419	$ 721,727
Depreciation	13,047	160,692
Balance, end of the year	$ 895,466	$ 882,419

	2016	2015
Carrying value, beginning of the year	$ 6,984,775	$ 179,295,509
Carrying value, end of the year	$ 6,971,728	$ 6,984,775

5. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash and bank balances	$ 22,409,072	$ 27,420,477
Cash equivalents	5,190,017	5,135,294
	$ 27,599,089	$ 32,555,771

6. Property, plant and equipment

Cost	Office	Land	Total
Balance, December 31, 2015	$ 110,090	$ -	$ 110,090
Write-off on disposal	(110,090)	-	(110,090)
Balance, December 31, 2016	$ -	$ -	$ -

Accumulated amortization			
Balance, December 31, 2015	$ (95,199)	$ -	$ (95,199)
Amortization	(14,891)	-	(14,891)
Write-off on disposal	110,090	-	110,090
Balance, December 31, 2016	$ -	$ -	$ -

Carrying value, December 31, 2015	$ 14,891	$ -	$ 14,891
Carrying value, December 31, 2016	$ -	$ -	$ -

(Expressed in Canadian Dollars)

6. Property, plant and equipment (continued)

Cost		Office		Land		Total
Balance, December 31, 2014	$	192,269	$	4,738,517	$	4,930,786
Additions		1,449		-		1,449
Disposal of Brazil subsidiaries		-		(4,738,517)		(4,738,517)
Write-off on disposal		(83,628)		-		(83,628)
Balance, December 31, 2015	$	110,090	$	-	$	110,090

Accumulated amortization						
Balance, December 31, 2014	$	(170,159)	$	-	$	(170,159)
Amortization		(8,668)		-		(8,668)
Write-off on disposal		83,628		-		83,628
Balance, December 31, 2015	$	(95,199)	$	-	$	(95,199)

Office

The Company moved offices during the year ended December 31, 2016. The new office location was pre-furnished with office equipment not owned by the Company and no furniture was moved from the old office to the new office.

7. Discontinued operation

On November 4, 2015, the Company sold all of the subsidiaries which held its interests in the Land, including Brazore Resources Inc., Adriana Resources Mineracao Ltda., and Adriana Resources (BVI) Inc. (the “Brazilian Subsidiaries”) to a private entity incorporated in British Columbia (the “Buyer”), for proceeds of $10 and a promissory note pursuant to which the Buyer is to pay the Company half of all net proceeds, up to a maximum of $3,000,000, in the event that the Buyer subsequently sells the Land. Pursuant to the promissory note, net proceeds means the gross proceeds less the direct costs incurred by the Buyer in connection with the Brazilian Subsidiaries from November 4, 2015 to the date of sale of the Land. Through December 31, 2016, the Buyer had not sold any portion of the Land.

(Expressed in Canadian Dollars)

7. Discontinued operation (continued)

As a result of the sale, the Brazilian Subsidiaries were classified as a discontinued operation and the loss from discontinued operations for the year ended December 31, 2015 was separately presented in the consolidated statements of loss and comprehensive loss.

The Company ceased to control the Brazilian Subsidiaries on November 4, 2015, therefore the deficit balance in non-controlling interest of $7,548,053 was recognized through a charge in the Company's statement of loss and comprehensive loss as part of the Loss for the year from discontinued operations.

Analysis of assets and liabilities disposed of:

Non-trade Brazil payables	$	4,089,967
Land		(4,738,517)
Prepaids and deposits		(41,783)
Disposal of non-controlling interest		(7,548,053)
	$	(8,238,386)
Cash consideration received		10
Loss on disposal of net assets	$	(8,238,376)

		Year ended December 31, 2016		Year ended December 31, 2015
Loss on disposal of Brazilian Subsidiaries	**$**	**-**	$	(8,238,376)
Foreign exchange		**-**		(920,241)
Land care and maintenance		**-**		315,159
Total	**$**	**-**	$	(8,843,458)

8. Share capital and share-based payments

(a) Authorized: The Company is authorized to issue an unlimited number of Common Shares.

(b) Issued: The Company had 157,554,238 Common Shares issued and outstanding having a carrying value of $130,005,004 as at December 31, 2015 and December 31, 2016.

(Expressed in Canadian Dollars)

8. Share capital and share-based payments (continued)

(c) Options and Share Based Payments: The Board adopted a new Incentive Stock Option Plan (the "Fixed Option Plan"), effective June 15, 2016, pursuant to which incentive stock options (the "Options") will be granted pursuant to option agreements to directors, officers, employees or consultants of the Company. The Fixed Option Plan replaces the "rolling" Incentive Option Plan of the Corporation (the "Rolling Option Plan"). In connection with adopting the Fixed Option Plan, the Board has resolved to not issue further Options under the Rolling Option Plan. Options granted under the Rolling Option Plan shall continue to be governed by the terms of the Rolling Option Plan, except that Options outstanding under the Rolling Option Plan that expire unexercised shall not be available for re-issuance. As of December 31, 2016, the maximum number of Common Shares which may be issued under the Fixed Option Plan was 15,755,423. The Company may grant options to directors, officers, employees or consultants of the Company. The exercise price per share shall be determined by the Company at the time the option is granted but, in any event, shall not be less than the closing price of the shares on the TSX Venture Exchange on the trading day immediately preceding the date of the grant of the option, unless the grant of the option occurs during a blackout period, in which case the exercise price per share shall not be less than the closing price of the shares on the TSX Venture Exchange on the second trading day immediately following the expiry of the blackout period. Options granted pursuant to the Fixed Option Plan have a five year term and shall vest and become exercisable by an optionee in three tranches: one third of the number of options vesting in each of six, twelve and eighteen months following the date of grant or a change of control.

The continuity of options is as follows:

	Number of options	Weighted average exercise price
Balance, December 31, 2014	6,275,000	$ 0.51
Granted	3,000,000	0.19
Expired	(550,000)	0.44
Forfeited	(583,334)	1.03
Balance, December 31, 2015	8,141,666	0.39
Expired	(600,000)	1.30
Forfeited	(2,291,666)	0.36
Balance, December 31, 2016	5,250,000	$ 0.30

As determined under the Black-Scholes option pricing model, the share-based payment expense for the year ended December 31, 2016 of $71,664 (2015 – $55,448) was recorded for options granted in prior years to directors, officers employees and consultants.

(Expressed in Canadian Dollars)

8. Share capital and share-based payments (continued)

(c) Options and Share Based Payments (continued):

The following table summarizes the options outstanding as at December 31, 2016:

Year of expiry	Number of options outstanding	Weighted average exercise price ($)	Weighted average remaining contractual life (years)	Number of exercisable options outstanding	Weighted average exercise price ($)
2017	950,000	0.81	0.31	950,000	0.81
2018	650,000	0.22	1.36	650,000	0.22
2019	650,000	0.17	2.36	650,000	0.17
2020	3,000,000	0.19	3.85	1,000,000	0.19
	5,250,000	0.30	2.72	3,250,000	

The fair value of the options granted during the year ended December 31, 2015 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	0.6%
Expected dividend yield	0.0%
Expected volatility	89.8%
Pre-vest forfeiture rate	10.8%
Expected life of options	3.5 years
Weighted average fair value of options	$0.04

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option.

(d) Loss per Share: The basic and diluted loss per share from continuing and discontinued operations for the year ended December 31, 2016 is $0.02 (basic and diluted loss per share for the year ended December 31, 2015 – $0.32). The calculation is based on the total loss for the year ended December 31, 2016 attributable to the owners of the Company of $2,648,637 (loss for the year ended December 31, 2015 – $49,795,602) and on the weighted average number of Common Shares outstanding of 157,554,238 (December 31, 2015 – 157,554,238). The outstanding options were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

The basic and diluted loss per share from continuing operations for the year ended December 31, 2016 is $0.02 (basic and diluted loss per share for the year ended December 31, 2015 – $0.26). The calculation is based on the total loss for the year ended December 31, 2016 attributable to the owners of the Company of $2,648,637 (loss for the year ended December 31, 2015 – $40,952,144) and on the weighted average number of Common Shares outstanding of 157,554,238 (December 31, 2015 – 157,554,238). The outstanding options were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

(Expressed in Canadian Dollars)

9. Related party transactions

Transactions with LOM

Intercompany balances and transactions have been eliminated on consolidation and are not disclosed in this note. All related party transactions relate to the reimbursement of administrative expenses, including travel and meal expenses, with arm's-length third party suppliers that the Company pays on behalf of LOM. All related party transactions are at historical cost and there are no provisions for bad debts.

During the year ended December 31, 2016, the Company paid $3,341 expenses on behalf of LOM (2015 – $36,291 for travel costs). During the year ended December 31, 2016, no amounts were reimbursed by LOM (2015 – $47,106) related to intercompany receivables.

The continuity of total receivable from LOM for the years ended December 31, 2016 and 2015 is as follows:

Receivable from LOM, December 31, 2014	$	10,815
Add: payments made on behalf of LOM		36,291
Less: Amounts reimbursed from LOM		(47,106)
Receivables from LOM, December 31, 2015		-
Add: payments made on behalf of LOM		3,341
Receivable from LOM, December 31, 2016	$	3,341

The receivable from LOM is included in other receivables.

Compensation of Key Management Personnel

Key management personnel include the Board of Directors, Chief Executive Officer and Chief Financial Officer. The remuneration of key management personnel of the Company was as follows:

		Year ended December 31, 2016		**Year ended December 31, 2015**
Short-term benefits	**$**	**757,289**	$	979,288
Share-based payments		**71,664**		55,448
Termination benefits		**-**		1,180,000
Total remuneration	**$**	**828,953**	$	2,214,736

(Expressed in Canadian Dollars)

10. Income taxes

The Company's effective rate of income tax differs from the statutory rate of 26.5% (2015 – 26.5%) as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Tax recovery at statutory rates	**$ (702,000)**	$ (13,196,000)
Non-deductible expenses	**82,000**	10,331,000
Change in unrecognized temporary differences	**620,000**	2,865,000
Income tax expense	**$ -**	$ -

The Company has tax losses of $44,421,000 that will expire commencing in 2026 (December 31, 2015 – $24,243,000) as well as a capital loss of $7,944,000 (December 31, 2015 - $43,588,000) and other deductible temporary differences in Canada of $19,432,000 (December 31, 2015 – $19,379,000). As well, the Company has Canadian federal investment tax credits of $1,179,000 (December 31, 2015 – $1,179,000) that will expire commencing in 2018 and Ontario minimum tax credits of $247,000 (December 31, 2015 – $247,000). The benefits of the tax losses and the investment tax credits are not recognized in these consolidated financial statements as management does not consider their utilization to be more likely than not.

11. Financial instruments

As at December 31, 2016, the Company's financial instruments are comprised of cash and cash equivalents, investment in equity securities, other receivables and accounts payable and accrued liabilities. The amounts reflected in the statement of financial position are carrying amounts and approximate their fair values due to their short-term nature. These financial instruments are classified as follows:

- Cash and cash equivalents – loans and receivables
- Investment in equity securities – financial asset at FVTPL
- Other receivables – loans and receivables
- Accounts payable and accrued liabilities – other financial liabilities

The evaluation of the financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 of the hierarchy includes inputs that are observable for the asset or liability, either directly or indirectly
- Level 3 includes inputs for the asset or liability that are not based on observable market data

Based on this hierarchy, the Company's financial instruments measured at FVTPL are grouped into Level 1.

11. Financial instruments (continued)

The following is a discussion of the Company's risk exposures:

- *Credit risk*: Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents and other receivables are exposed to credit risk. Management believes the credit risk for cash and cash equivalents and other receivables is low because the counterparties are highly rated financial institutions and the federal and provincial governments.

- *Interest rate risk*: Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk due to the short term to maturity of its financial instruments. The Company had no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2016.

- *Currency risk*: Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial position and performance are exposed to the risk of currency fluctuations. The Company's functional currency is Canadian dollars but a proportion of its expenditures were previously incurred in Brazilian reais and US dollars.

The following significant exchange rates applied during the years:

	2016		**2015**	
Currency	Period end rate	Average rate	Period end rate	Average rate
US: USD 1=	1.3427	1.3245	1.3840	1.2893

(Expressed in Canadian Dollars)

12. Segmented information

The Company has one reportable operating segment at December 31, 2016, the investment in LOM, which was formed to develop the Lac Otelnuk Project in Nunavik, Québec, Canada. Prior to November 4, 2015, the Company had subsidiaries related to the Land.

Significant information relating to the Company's reportable operating segments for the comparable year ended December 31, 2015, including information with respect to the Brazilian Subsidiaries that were sold during the year ended December 31, 2015, is summarized below:

As at and for the year ended December 31, 2015	Brazil	Canada	Total
Cash and cash equivalents	$ -	$ 32,555,771	$ 32,555,771
Non-current assets	-	2,953,984	2,953,984
Total assets	-	35,574,911	35,574,911
Total liabilities	-	76,638	76,638
Net loss from continuing operations for the year	-	(40,952,144)	(40,952,144)
Net loss from discontinued operations for the year	(8,843,458)	-	(8,843,458)
Property, plant and equipment - investing activities	-	1,449	1,449

13. General and administrative expenses

	Year ended December 31, 2016	Year ended December 31, 2015
Amortization	**$ 14,891**	$ 8,668
Travel	**3,345**	100,367
Investor relations	**53,323**	75,459
Rent and office expenses	**175,577**	218,968
Salaries and benefits	**906,482**	2,303,593
Transfer agent and filing fees	**45,642**	54,720
	$ 1,199,260	$ 2,761,775

14. Transaction costs

Transaction costs of $1,292,183 (2015 - $nil) represent professional fees and other costs related primarily to the acquisition of SRC by the Company (see note 15).

15. Subsequent event

On February 9, 2017, the Company and SRC closed their previously announced business combination pursuant to a plan of arrangement under the Canada Business Corporations Act ("Arrangement").

Under the Arrangement, SRC became a wholly-owned subsidiary of ADI and holders of common shares of SRC ("SRC Shareholders") received 3.0 ADI common shares per common share of SRC (the "Exchange Ratio"). On February 8, 2017, ADI shareholders received one-quarter of a warrant in respect of each ADI share held, with each whole warrant (each, a "Warrant") having a five-year term and a strike price of $0.333 per share (the "Warrant Distribution"). The Warrants trade on the Toronto Stock Exchange (the "TSX") under the symbol SRHI.WTS.

As part of the Arrangement, ADI shareholders approved a name change of ADI to Sprott Resource Holdings Inc. ("SRHI") together with the TSX approving the graduation of ADI from the Toronto Venture Exchange to the TSX. SRHI trades on the TSX under the symbol SRHI.

Concurrent with the completion of the Arrangement, (i) Sprott Inc. ("Sprott") invested $10 million in ADI common shares at a price of $0.233 per share and (ii) a fund managed by a subsidiary of Sprott, together with Term Oil Inc. (a corporation controlled by A.R. (Rick) Rule IV), invested a total of $5 million in units of ADI (each unit comprised of one ADI common share and one Warrant) at a price of $0.25 per unit ("Unit") (together, the "Transaction"). If, four months after the closing of the Warrant Distribution, the daily weighted average trading price of the SRHI common shares for any 45 consecutive trading day period is greater than $0.583 per SRHI common share, the expiry date of the Warrants may be accelerated by SRHI.

Sprott Resource Consulting Limited Partnership, an affiliate of Sprott, received 21,750,000 Warrants as a long-term incentive to replace the profit distribution program that was in place at Sprott Resource Partnership and which was terminated upon completion of the Arrangement.

Upon completion of the Arrangement and Transaction, on a basic shares outstanding basis, former SRC Shareholders, ADI shareholders, Sprott, and a fund managed by a subsidiary of Sprott together with Term Oil Inc. owned approximately 57%, 31%, 8% and 4%, respectively, of SRHI.

Immediately following the completion of the Arrangement, the board of directors of SRHI was reconstituted and is now comprised of the former members of the board of directors of SRC (other than Peter Grosskopf, who stepped down in connection with the closing of the Arrangement), together with two previous directors of ADI and A.R. (Rick) Rule IV.

As a result of the Arrangement, SRHI has initiated its transition from a private equity firm to a diversified holding company focusing on holding businesses in the natural resource industry that it believes can generate sustainable free cash flow. SRHI management expects that it will take SRHI less than 12 months to make the transition from a private equity firm to a diversified holdings company.

Following the completion of the Arrangement, SRC became a wholly-owned subsidiary of SRHI. The previous shareholders of SRC control SRHI and the majority of the board of directors of SRHI are represented by SRC's board of directors. For accounting purposes, the Arrangement resulted in the reverse takeover of SRHI (formerly ADI) by SRC and SRC was deemed the acquirer. ADI qualified as a business under the requirements of IFRS 3, *Business Combination*. Accordingly, effective as at the date of closing, February 9, 2017, the assets and liabilities of SRC will continue at their carrying values and ADI's net assets will be consolidated based on their fair value as at February 9, 2017. As at the date of these financial statements and given the recency of the closing of the Arrangement and Transaction, the initial accounting for the Arrangement and Transaction is not yet finalized as the Company is in the process of determining the fair values of the assets acquired and the liabilities assumed.