A Message from the CEO

June 9, 2021

Peter Grosskopf
Chief Executive Officer,
Sprott Inc.

Golden Anniversary Reflections

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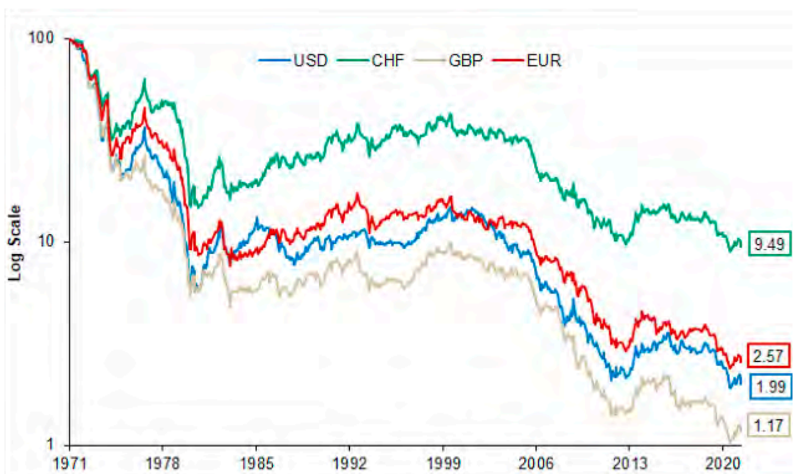
Chief Executive Officer, Sprott Inc.; Managing Director, Sprott Resource Lending

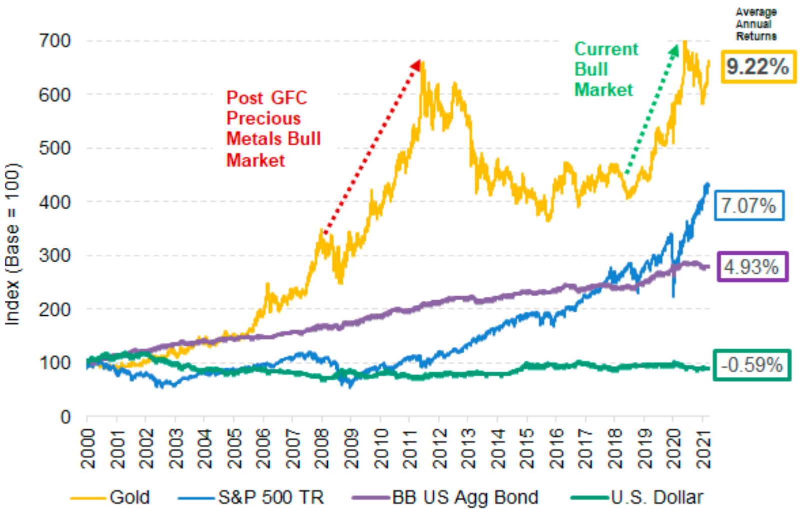
This year will mark the 50-year golden anniversary of the "Nixon Shock," when the world's reserve currency was last partially tethered to gold. It seems an apt time to reflect on where we stand on the gold trade. Considering the exponential leveraging of the U.S. dollar reserve system, which has occurred since 1971, it is not surprising that equities, bonds and real estate have fared well. And yet, as Figure 1 demonstrates, as a currency, gold has trounced fiat paper most of the time while as an asset class (Figure 2), it has held its own — not bad considering the other side had several free "get out of jail" cards.

Figure 1. Purchasing Power of Main Currencies Valued in Gold
(Log Scale: 1971-2021)



Source: Bloomberg. Data as of 5/31/2021. Reuters Eikon, Nick Laird, goldchartsus.com, Incrementum AG. CHF is the Swiss Franc; EUR is the Euro; USD is the U.S. Dollar: GBP is the British Pound Sterling. Past performance is no guarantee of future results.

Figure 2. Gold's Long-Term Outperformance vs. Stocks, Bonds, USD (2000 to 2021)



Source: Bloomberg. Period from 12/31/1999-05/31/2021. Gold is measured by GOLDS Comdty Spot Price; S&P 500 TR is measured by the SPX; US Agg Bond Index is measured by the Bloomberg Barclays US Agg Total Return Value Unhedged USD (LBUSTRUU Index); and the U.S. Dollar is measured by DXY Curncy. Past performance is no guarantee of future results. For illustrative purposes only.

We also take time to reflect on how Sprott as a firm is positioned. Even with the contrarian gene in our DNA, it is hard to envision a more polarized dynamic. The financial markets have become increasingly correlated to a positive conclusion to the monetary experiments of the day, while we have a high degree of conviction in our counter-trend posture.

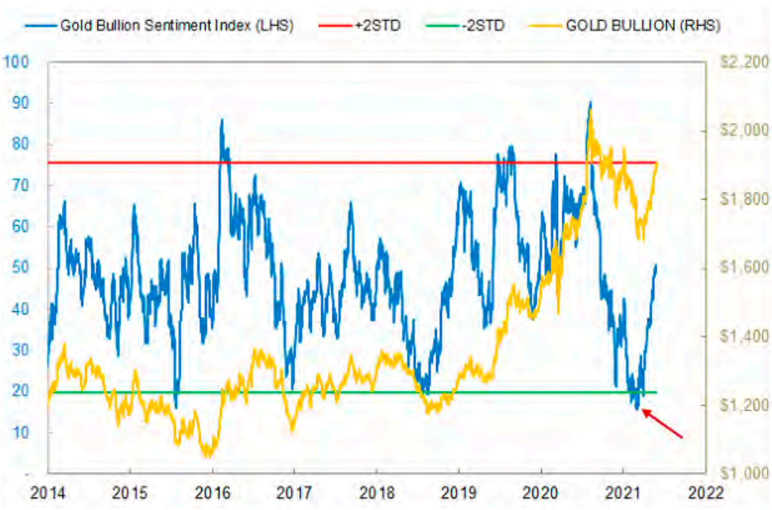
My role at Sprott is not to act as chief prognosticator, but after 35 years in the gold trade and with the benefit of a team of experts, I feel qualified to state that today's environment offers a stellar opportunity to gold investors. Several simultaneous winds of change are in the air; the "this-time-for-real emergence of inflation," the perception of central bank omnipotence and a potential apex of the pendulum swings in equity and credit markets. Add to that upcoming structural changes in the gold market, we believe that these coincidental turning points will validate that "All Things Sprott" are on the right track.

> "I feel qualified to state that today's environment may offer a stellar opportunity to gold investors."

Gold Update

It was natural that gold experienced a pullback over the first four months of 2021 as investors focused on the economic rebound made possible by COVID-19 vaccinations. Risk appetites and yields rose, further rate hikes were built-in and the U.S. dollar initially strengthened. We were comforted that solid support for gold emerged at $1,700 and its sentiment indicators, notably our Sprott Gold Bullion Sentiment Index (see Figure 3), the Bernstein DSI and the Hulbert Gold Newsletter Sentiment Index, all posted near-record lows around the same time.

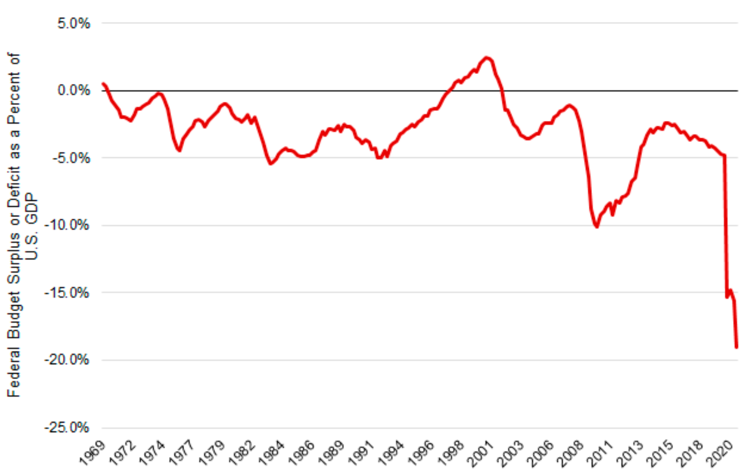
Figure 3. Sprott Gold Bullion Sentiment Index (2014-2021)



Source: Sprott Asset Management LP. Data as of May 31, 2021. For illustrative purposes only.

The longer-term indicators for gold are in great shape. The systematic risks associated with high debt levels in every sector are growing. Equity markets are priced for perfection. The U.S. budget and trade deficits are at record highs as a percentage of GDP (see Figure 4), while its major international partners continue to move towards de-dollarization. The financial markets have spent 10 years building their foundations for an increasingly levered, low-interest rate and low-volatility world. Are we at the point at which the spring has absorbed maximum tension before release?

Figure 4. U.S. Federal Budget as Percent of U.S. GDP (1969-2020)



Source: Bloomberg. Data as of May 31, 2021. For illustrative purposes only.

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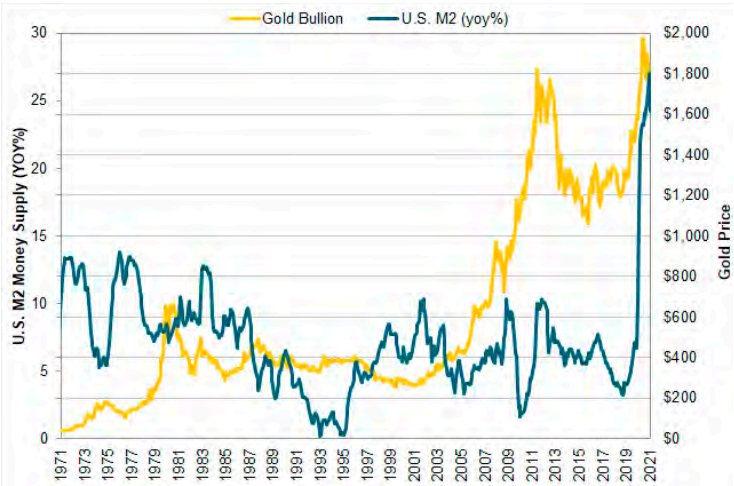
Figure 5. U.S. M2 Money Supply vs. Gold Price (1971-2021)



Source: Bloomberg. Data as of May 31, 2021. For illustrative purposes only.

The Inflation Question

In a recent conversation with John Hathaway, our gold equities Senior Portfolio Manager and strategist, we agreed that despite persistent deflationary forces, the timing was right for inflation to take the upper hand. Previously, with slack in the labor force, idled capacity in many industries, a deceleration of the velocity of money and an increase in the savings rate, the equation was at equilibrium. We concur that the recent boom in commodity inputs may be an overshoot. In the long term, we think the existing deflationary forces will be overpowered by fiat currency debasement, driven by skyrocketing debt balances and money supply, while real interest rates are held in negative territory.

There are only three ways out of the debt bubble now gripping government finance: 1) default; 2) financial repression over decades; or 3) hyperinflation. Does anyone care that these end games are now mathematical certainties? Not yet, it seems. With control over their currencies, we do not believe there is any appetite for or chance of default among the G7 (Group of 7 developed Democracies). Monetary and fiscal tools have been homogenized and vastly expanded by political agendas. Excessive money supply growth, constant support for Treasury and mortgage bonds (and many other markets), and runaway government deficits have all become common and aggressive addictions. Those who aspire to moderation are likely to be disappointed.

We all know that government calculations of inflation are flawed and driven by a major conflict of interest. For those seeking anecdotal evidence of a real inflation rate, consider the price gains in financial or real estate assets, surging transportations costs, recent earnings reports from global companies or the price action in large global commodity markets. There are lasting COVID-19 impacts to supply and trade chains, and consensus among corporates that price increases can be pursued. We would be surprised if the current annualized rate of inflation was not over 5%, and note that John Williams ShadowStats is currently showing an 8-10 % range, either of which would signify a shocking plunge in real rates. Even if current fears abate, inflation is a collective mindset reflecting the degree of belief in sound money versus the cost of living. How can the Federal Reserve (the "Fed") know if its attempt at annual inflation targeting can be contained at 2%, or that existing inflation is transitory? Gold offers one way to hedge their bet.

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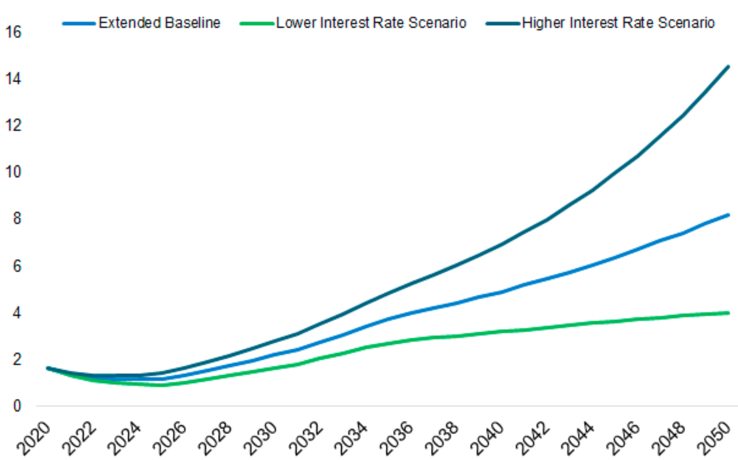
Taper Talk

We have received inquiries from clients concerned about the effect of tapering (i.e., the Fed pulling back on bond buying, also referred to as "quantitative easing") on the gold price. We are not concerned for several reasons. First, we believe the removal of support is most likely in mortgage-backed securities, which have fueled today's red-hot housing markets. The main impact of this would be to raise credit spreads and reduce risk-taking appetite, which should be positive for gold.

As happy as we are with the ongoing recovery from COVID-19, its long-term economic and financial impacts will continue to extract a heavy cost. We note the reluctance of workers to return to work absent substantial wage increases, the reliance on what may now become more permanent Universal Basic Income (UBI) programs, and structural changes in the real estate markets, etc.

Tapering will face limits due to the increasing relationship between government bond markets and the global economy. U.S. government involvement in the economy now sits at over 20% of GDP. Even with the introduction of market-negative tax increases and the rosy economic forecasts from the CBO (Congressional Budget Office), the receipts/expenditure balances of the U.S. government are so negative that huge deficits will need to be financed indefinitely. The additional funding required for the contemplated infrastructure programs will exacerbate the funding gap. We believe the additional interest service costs of a higher rate structure, or guidance that bond-buying support from the Fed was being pulled, would quickly lead to Treasury market disruptions of the kind already experienced. Financial repression and yield curve control are here to stay.

Figure 6. Net Outlays of Interest in % of GDP (2020-2050E)



Source: Incrementum AG. For illustrative purposes only.

Fittingly, the financial markets these days now seem almost completely driven by interpretations surrounding the degree of central bank support, a correlation level and obsession that appears to us to be unhealthy at the least. As to recent Fed-speak (Fed Chairman Jerome Powell), "we're not even thinking about thinking about raising rates" and frequent about-faces as to taper planning, it is getting just plain silly.

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Structural Changes to Gold

Most gold followers have read the recent articles covering the Basel III banking regulations, which are due to start implementation during the second half of 2021. For those who have not, the brief summary is that bullion banks will be required to set aside more capital against their unallocated gold derivative and trading book assets.

Under the new guidelines, which are due to be imposed between now and early 2022, 85% of unallocated gold assets (required stable funding or RSF) are required to be funded with long-term liabilities (available stable funding or ASF), under which gold is levied with a 0% stable funding credit. The zero credit apportioned to the long-term gold funding (ASF) is a consequence of the failure of gold to meet "High Quality Liquid Asset" requirements, due in large part to the lack of trade data reported to and by the LBMA. The gold community hopes to re-engage with the regulator on this point to achieve a reduced RSF and/or symmetry on the ASF side of the equation.

We have been unable to determine to what degree these clearing bank members can lever unallocated gold on deposit with them or what leverage ratios were used by them in the past as these were proprietary and based on their own appetite for risk. Our all-important guess is that the capital leverage will be reduced by at least 3X and potentially up to 10X of that previously employed by some.

The resulting dual-impact increase (calculated as RSF/ASF, which must be greater than 100%) in the bank funding requirements for gold will add to the friction costs in the settlement, trade and swaps area, possibly reducing liquidity and making it more expensive to concoct the paper gold contracts responsible for a significant portion of investor flows in the sector.

For gold investors already wary of unallocated gold's fractional reserve system and gold contracts backstopped by commercial bank balance sheets, these extra costs and scrutiny may accelerate their flows into fully gold-backed investment products or allocated physical gold in storage. Perhaps the case for "Freegold," which focuses on a re-rating between physical gold and bank contracts, will now be brought to the forefront.

Silver

Silver is a small market (annual supply equates to ~$20 billion) compared to gold and is much more volatile. The demand for silver is driven chiefly by industrial applications and secondarily by investment demand. The former is increasing at the pace of many underlying growth industries, and the latter is soaring due to the same factors driving gold. Silver is aptly known as the "poor man's gold," and when investment demand rushes in, as it is now, the market can be squeezed higher.

Also, as with the gold market, we are seeing similar dynamics at play with silver and the commercial bullion banks. Once bank capital charges are properly attached to the existing silver derivative contracts, we expect the liquidity of those contracts to dry up to a degree and their spreads to increase. Silver, more so than gold and due in equal parts to its by-product status and fatter derivatives margins (from higher volatility, etc.), has been subject to constant producer and commercial bank hedging and shorting. Once that tap is turned down, we expect unmet demand for physical to increase and prices to move higher. Watch this space, as the physical silver supply has already been tightened by the "#silversqueeze" crowd. The LBMA has slightly less physical silver than they thought due to a "data submission error," and investor interest in silver as an inflation hedge has never been greater.

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Mining Equities

Good times abound for equities in the mining sector. Due to its unpopular financial and now-inaccurate ESG (environmental, social and governance) reputation, the sector has been under-invested in for almost 40 years. Although most equities are well up off recent lows, we do not feel that their valuations yet reflect the underlying value in their businesses - the Scotiabank gold team estimates equities currently trade at a 15% discount to bullion versus their usual premium of 10%. A remarkable case in point is that the major gold producers have begun to highlight how much discretionary free cash flow they will generate over the next five years as a percentage of their enterprise values. That number is close to 50%. Most of the analyst community are still using commodity prices 10 percent or more under spot in their models, leaving room for positive earnings surprises.

There is also a pervasive case for industry consolidation, and M&A (mergers and acquisitions) should serve as an increasing catalyst moving forward. C-suite executives of the senior miners have delivered required discipline and returns of capital for five years now, and sit with under-utilized balance sheets and pent-up hunger to tackle growth projects and replace declining reserve profiles. Juniors still suffer from a major cost-of-capital differential and very high G&A (general and administrative) costs for single or double mine companies. Experienced mining portfolio managers such as ours can select catalyst-rich juniors with quality projects at their predictable proof-of-concept points of weakness, which have the potential to earn outsized returns regardless of gold price direction. The list of growth company mining targets is interesting regardless, as these projects frequently trade at attractive valuations close to their invested capital to date.

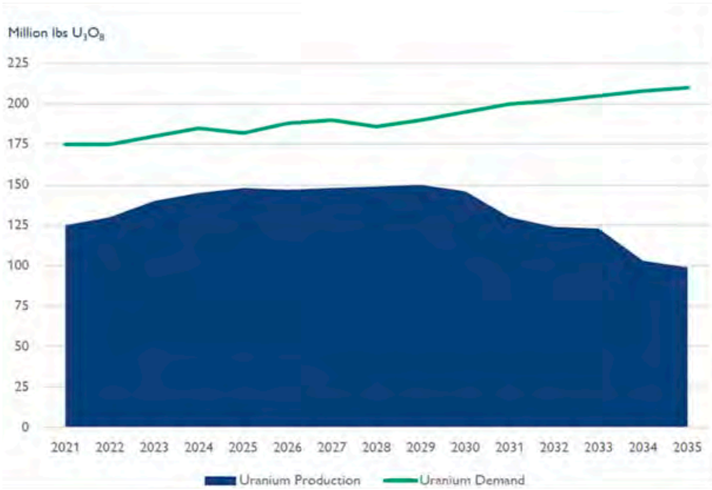
Uranium

Sprott recently announced an agreement to take over the management of Uranium Participation Corp (TSX: U), the world's largest manager of physical uranium. Uranium mining is a highly-specialized industry, producing a mineral that is the main feedstock to nuclear power facilities.

Our thesis for this move is our belief that nuclear generation is crucial for establishing an economical, clean energy generation grid. Nuclear reactors are now, finally, truly safe with net-positive environmental effects. We are taking a calculated view that western governments, having largely abandoned nuclear power over the past 40 years due to environmental and waste storage issues, will swing to supporting nuclear growth over the next number of decades (these are long cycles).

Uranium mining has similarly suffered from a long period of under-investment due to the plummeting demand and reconversion supply from nuclear weapons disarmament. Costs to operate and build uranium mines have soared. While there was a brief breach of the $100/lb U308 mark in 2005, long-term uranium contract pricing by utilities has almost never provided an acceptable margin to new uranium mines. In addition to curtailing new mine development, some of the world's largest and highest-grade mines were idled or cut back during 2019 and 2020. Much higher U308 prices are required to assure adequate future supply.

Figure 7. Uranium Supply and Demand (2021 – 2035E)



Source: WMC Energy. For illustrative purposes only. For illustrative purposes only.

Update on Digital Gold

We continue to believe that the "tokenization" of gold is getting closer and offers much upside to the sector. The shortcomings of the gold industry were exposed by the COVID-induced physical delivery scare, the failure to secure "Highly Liquid Qualified Asset" status and the resulting hit to capital that the commercial bullion banks are now likely to have to bear. Meanwhile, gold tokens such as "PAX G," "DGLD" and "Tether" have proven their underlying technology and are ready for commercialization. We note some of these physically-backed tokens can be lent out through BlockFi to earn annualized returns as high as 5%. Glint has a working gold account card payment system. Once these tech companies begin to partner with industry giants, the gold industry will begin to adapt precious metals on the blockchain. Although perhaps not volatile enough to attract the crypto-casino investors, tethered gold could materially add to gold's use within investors' portfolios, the mobile generation, the pending "DeFi" movement and most importantly, provide the ability of households to avoid the use of fiat currencies.

Sprott Update

We are fully engaged in our mission to build the world's largest precious metals investment manager. All of our divisions at Sprott – exchange listed physical and equity ETFs, public equity funds, private funds, and brokerage/private clients – are growing nicely. We continue to improve on the synergies between our divisions and the technical teams that review possible investments.

From a shareholder perspective, we believe that Sprott offers investors the opportunity to participate in a one-stop growing income stream from the precious metals area. Much like gold royalty companies, we earn stable and growing margins from gold and are committed to paying a solid dividend yield. We enjoy leverage from four sources: 1) price appreciation of metals and related equities; 2) inflows to our funds; 3) performance fees depending on the specific fund and 4) the opportunity to participate in our balance sheet investments.

Increasingly, we see opportunities in new areas. For example, minerals crucial to the growth of electric vehicles, clean power and high-tech applications are in short supply and have suffered from years of under-investment. The Sprott franchise will explore taking advantage of those opportunities as we build our global platform.

About Sprott

Sprott is a global alternative asset manager with a defining focus on precious metals and real assets investments. Through our subsidiaries in Canada, the U.S. and Asia, Sprott is dedicated to providing investors with world-class investment strategies that include exchange-listed products, active equity strategies and highly-specialized real asset investments. Our deep sector expertise creates investment and financing solutions unparalleled in the industry.

For more information, please visit **sprott.com**

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