

All eyes were on the French election for the month of April, and specifically on the first round of the French elections. Following the first round of French elections, which saw the heavily favored Macron square off against Marine Le Pen, the market breathed a sigh of relief. The wave of populism which has been sweeping large parts of the Western world appeared to have abated. The outcome of the first round of French elections resulted in what can be characterized as a minor risk-on shift in the markets. Gold came under modest selling pressure while yields moved higher. For the month of April, gold managed a modest gain of 1.5%, closing at \$1,268 after encountering its usual dose of volatility. The S&P/TSX Global Gold Total Return managed to eke out a tiny gain of 0.1% in April.

The biggest news in the gold space for the month of April was around the index changes of the GDXJ ETF. The GDXJ was originally designed to invest in junior gold companies, which were previously defined as those which fell in the bottom 20% of the gold universe as measured by their market capitalization. For most investors, investing in junior companies can be difficult due to their poor liquidity and volatile as a result of their leverage to the gold price. GDXJ took away the liquidity issue and investors flooded in over the past few years. However, there is such thing as too much of a good thing. The GDXJ grew too big for its investable universe and as result, changed its methodology in April and expanded to include all gold companies in the bottom 40% of the gold universe. Once these changes come into effect, the GDXJ ETF will become a mid-cap focused ETF. Investors did not react positively to these changes as the ETF was hit with wave upon wave of redemptions. The resulting outflows played havoc on their holdings as a result of liquidity and a volatile gold tape. Our fund, which has exposure to some of these junior miners was impacted as a result and lost 3.78% for the month of April. It is worth noting that this underperformance was not limited to our fund. Several of our peers underperformed their benchmarks as a result of the events surrounding GDXJ. The forced liquidation which has occurred in the junior gold mining space presents us with some very exciting buying opportunities. We were able to capitalize by purchasing high quality names as they came on sale. It is also worth noting that investors were specifically only shifting out of gold equities and not bullion. The bullion ETFs actually attracted assets in the month of April. This further confirms that the investor interest in the space remains strong and equities are poised for a move higher as the dust settles.

As we look ahead, we are beginning to see signs of concerns on the economic horizon. The ISM Manufacturing Index has put in a decisive peak and is heading lower. Credit growth in China is slowing. Developed markets remain growth challenged while wage inflation continues to trend higher. These are the type of conditions which tend to be beneficial for gold. With interest remaining strong in bullion and gold equities temporarily on sale, our outlook for gold, heading into summer is very positive.

The top contributors to the Fund were Agnico-Eagle Mines, Newmont Mining Corporation and Richmont Mines. Agnico reported extremely positive Q1 2017 earnings with production, costs and cash flow all beating expectations. Newmont also reported strong earnings in Q1 due to lower operating costs and generated strong free cash flow. The Company improved its production and cost outlook to 2021. Richmont showed strong performance from its flagship Island Gold mine with mining and milling rates setting rates. The mine has demonstrated very good quarter-over-quarter operational improvement for more than a year.

The top detractors from the Fund were Continental Gold, Endeavour Mining and Barrick Gold. Continental Gold was awarded the engineering/procurement contract for its high-grade Buritica project in Colombia to M3 Engineering & Technology and the construction contract to Merit Consultants International. Construction activities are expected to ramp-up towards the end of the year once the access road has been completed. Endeavour announced a private placement with

SPROTT GOLD & PRECIOUS MINERALS FUND

April 2017 Commentary

La Mancha in accordance with an anti-dilution right held by La Mancha and adding sources of financing for growth. Barrick reported a weak Q1 with lower production and higher costs vs. estimates. The company reduced its 2017 production guidance.

COMPOUNDED RETURNS (%) AS AT APRIL 28, 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	-3.8	2.6	-10.2	-14.5	-7.5	7.1	-7.5	-4.7	4.8	8.7
S&P/TSX GLOBAL GOLD TOTAL RETURN INDEX	0.1	7.3	-2.7	-7.1	-8.5	5.2	-6.7	-2.4	1.6	3.7

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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 April 28, 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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