



Sprott Gold Bullion Fund

SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

JUNE 30

2016

The interim management report of fund performance is an analysis and explanation that is designed to complement and supplement an investment fund's financial statements. This report contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim financial statements at your request, and at no cost, by calling 1-866-299-9906, by visiting our website at www.sprott.com or SEDAR at www.sedar.com or by writing to us at: Sprott Asset Management LP, Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, P.O. Box 27, Toronto, Ontario M5J 2J1. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of the Sprott Gold Bullion Fund (the “Fund”) is to seek to provide a secure, convenient alternative for investors seeking to hold gold.

As part of its investment strategy, the Fund:

- invests primarily in unencumbered, fully allocated gold bullion and permitted gold certificates, and/or closed-end funds, the underlying interest of which is gold;
- has obtained exemptive relief to permit the Fund to invest up to 100% of its net asset value, taken at the market value at the time of purchase, in gold and/or permitted gold certificates; and
- may invest a portion of its assets in cash, money market instruments and/or treasury bills.

Risk

The risks of investing in the Fund are described in the Fund’s simplified prospectus. Direct purchases of gold by the Fund may generate higher transaction and custody costs than other types of investments, which may impact the performance of the Fund. The Fund is suitable for those investors who want exposure to the capital appreciation potential of gold and who want to maintain a high level of liquidity in their investments with a medium tolerance for risk and volatility. There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period.

Results of Operations

The Fund, Series A gained 15.6% in the first six months of 2016, versus spot gold, which gained 16.3% in Canadian dollar terms.

The first six months of 2016 saw a significant rebound in the price of gold, largely driven by declining real interest rates globally, continued weak global economic outlook and Britain’s referendum vote to leave the European Union, and the related economic uncertainty.

At the beginning of January, the People’s Bank of China devalued the Yuan, causing gold bullion to rally as further currency devaluations were expected. A broad global equity selloff followed. As the selling pressure mounted, the European Central Bank announced that they were prepared to introduce more accommodative measures. The U.S. Federal Reserve Board’s (the “Fed”) Federal Open Market Committee (the “FOMC”) meeting followed with a very dovish stance (in favour to maintaining low interest rates). By month-end the Bank of Japan shocked the market with a decision to pursue a negative interest rate policy. January ended with almost a third of all global bond issuances carrying a negative interest rate. February continued much the same, with the market pricing in more widespread acceptance of negative interest rate policies by the world’s central banks, and bond yields falling globally. Gold bullion rallied strongly. In March, the acknowledgement by the Fed of the global impact of their monetary policy - lower interest and the resulting lower U.S. dollar benefiting China and other emerging economies, leading to improved global economic outlook - led to a sharp stock market rally and a slight pullback in the price of gold. The U.S. dollar continued to weaken in April and interest rates remained low, leading to a sharp increase in the price of gold. The increase in demand for bullion ETFs added to the positive momentum for the metal. The volatility continued with the Fed signaling possible rate increase in June resulting in a spike in the U.S. dollar and a pullback in gold. June saw a sharp reversal and an extraordinary performance of gold bullion. Weak U.S. payroll data and a dovish FOMC meeting led to a rally in gold. Britain’s referendum vote on June 23rd to leave the European Union shocked the markets and gold was a significant beneficiary, climbing an additional \$65/oz to end June at \$1,322/oz.

The Fund’s total net asset value increased 21.0%, from \$144.9 million at December 31, 2015 to \$175.3 million at June 30, 2016. This change was predominantly due to \$23.7 million in unrealized gains on investments and net subscriptions of \$7.3 million. The management expense ratio decreased slightly compared to prior year.

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Related Party Transactions

MANAGEMENT FEES

The Fund pays a management fee to the Manager, at an annual rate of 0.8% for Series A units, 0.5% for Series F units and as negotiated by the unitholders for Series I. The management fee is calculated and accrued daily based on the daily net asset value of the applicable series of the Fund, and is paid monthly. For the six-month period ended June 30, 2016, the Fund incurred management fees of \$461,969 (including taxes). The breakdown of the services received in consideration of the management fees, as a percentage of management fees, is as follows:

	Portfolio Advisory	Trailing Commission
Sprott Gold Bullion Fund – Series A	62%	38%
Sprott Gold Bullion Fund – Series F	100%	–
Sprott Gold Bullion Fund – Series I	100%	–

Out of the management fees that the Manager received from the Fund, the Manager paid trailer commissions of \$11,691 during the six-month period ended June 30, 2016 to Sprott Private Wealth LP, an affiliate of the Manager.

OPERATING EXPENSES

The Fund pays its own operating expenses, which include, but are not limited to, audit, legal, custodial, trustee, filing and administrative expenses as well as unitholder reporting costs. The Manager pays certain of these expenses on behalf of the Fund and then is reimbursed by the Fund.

OTHER RELATED PARTY TRANSACTIONS

The Fund relied on the approval, positive recommendation or standing instruction from the Fund's Independent Review Committee with respect to any related party transactions.

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Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six-month period ended June 30, 2016 and the years shown.

The Fund's Net Assets per Unit¹

	Jun 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011
Series A	\$	\$	\$	\$	\$	\$
Net assets, beginning of period	11.84	11.24	10.58	13.91	13.47	12.12
Increase (decrease) from operations:						
Total revenue	–	–	–	–	–	–
Total expenses	(0.08)	(0.15)	(0.15)	(0.14)	(0.15)	(0.15)
Realized gains for the period	0.01	0.08	0.04	0.30	0.02	0.08
Unrealized gains (losses) for the period	1.89	0.73	0.85	(3.57)	0.50	1.14
Total increase (decrease) from operations²	1.82	0.66	0.74	(3.41)	0.37	1.07
Distributions:						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions³	–	–	–	–	–	–
Net assets, end of period	13.69	11.84	11.24	10.58	13.91	13.47
Series F	\$	\$	\$	\$	\$	\$
Net assets, beginning of period	12.10	11.44	10.74	14.08	13.59	12.18
Increase (decrease) from operations:						
Total revenue	–	–	–	–	–	–
Total expenses	(0.06)	(0.12)	(0.12)	(0.11)	(0.11)	(0.11)
Realized gains for the period	0.01	0.08	0.04	0.36	0.02	0.08
Unrealized gains (losses) for the period	1.95	0.72	0.89	(3.84)	0.51	0.99
Total increase (decrease) from operations²	1.90	0.68	0.81	(3.59)	0.42	0.96
Distributions:						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions³	–	–	–	–	–	–
Net assets, end of period	14.01	12.10	11.44	10.74	14.07	13.59

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Series I	Jun 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011 ⁴
	\$	\$	\$	\$	\$	\$
Net assets, beginning of period	9.61	9.03	8.43	10.99	10.55	10.00
Increase (decrease) from operations:						
Total revenue	–	–	–	–	–	–
Total expenses	(0.02)	(0.04)	(0.04)	(0.03)	(0.02)	(0.02)
Realized gains for the period	0.01	0.06	0.03	0.17	0.01	0.04
Unrealized gains (losses) for the period	1.51	0.41	0.38	(2.45)	(0.40)	0.77
Total increase (decrease) from operations²	1.50	0.43	0.37	(2.31)	(0.41)	0.79
Distributions:						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions³	–	–	–	–	–	–
Net assets, end of period	11.15	9.61	9.03	8.43	10.98	10.55

1 This information is derived from the Fund's interim and audited annual financial statements. Information related to year 2013 and all periods onwards has been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board. Information related to all periods prior to January 1, 2013 has been prepared in compliance with Canadian generally accepted accounting principles ("Canadian GAAP") as defined in Part V of the Chartered Professional Accountants of Canada Handbook – Accounting. Under Canadian GAAP, the Fund was required to use bid prices for valuing long positions and ask prices for short positions. As such, the net assets per unit presented in the financial statements may differ from the net asset value calculated for transaction purposes prior to conversion to IFRS.

2 The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. Net assets and distributions are based on the actual number of units outstanding at the relevant time. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

3 Distributions were reinvested in additional units of the Fund.

4 Information provided is for the period from June 6, 2011 (first issuance) to December 31, 2011.

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Ratios and Supplemental Data

	Jun 30, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011
Series A						
Total net asset value (000s) ¹	\$78,834	\$67,682	\$71,391	\$79,554	\$132,291	\$115,014
Number of units outstanding ¹	5,758,290	5,714,655	6,354,305	7,518,430	9,509,774	8,537,071
Management expense ratio ²	1.24%	1.27%	1.32%	1.17%	1.09%	1.10%
Trading expense ratio ³	–	–	–	–	–	–
Portfolio turnover rate ⁴	0.77%	5.67%	1.14%	0.66%	0.99%	3.22%
Net asset value per unit ¹	\$13.69	\$11.84	\$11.24	\$10.58	\$13.91	\$13.47
Series F						
Total net asset value (000s) ¹	\$50,639	\$42,216	\$43,769	\$50,515	\$135,555	\$116,294
Number of units outstanding ¹	3,613,877	3,488,345	3,825,169	4,702,996	9,630,362	8,558,583
Management expense ratio ²	0.91%	0.94%	0.99%	0.85%	0.77%	0.78%
Trading expense ratio ³	–	–	–	–	–	–
Portfolio turnover rate ⁴	0.77%	5.67%	1.14%	0.66%	0.99%	3.22%
Net asset value per unit ¹	\$14.01	\$12.10	\$11.44	\$10.74	\$14.08	\$13.59
Series I						
Total net asset value (000s) ¹	\$45,873	\$35,014	\$22,259	\$14,537	\$12,532	\$481
Number of units outstanding ¹	4,113,819	3,645,319	2,464,538	1,724,201	1,140,639	45,594
Management expense ratio ²	0.36%	0.39%	0.43%	0.26%	0.21%	0.25%
Trading expense ratio ³	–	–	–	–	–	–
Portfolio turnover rate ⁴	0.77%	5.67%	1.14%	0.66%	0.99%	3.22%
Net asset value per unit ¹	\$11.15	\$9.61	\$9.03	\$8.43	\$10.99	\$10.55

1 The information is provided as at June 30, 2016 and December 31 of the years shown prior to 2016.

2 Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period. Series I units were first issued on June 6, 2011; the MER for the period from June 6, 2011 to December 31, 2011, on a non-annualized basis, was 0.14% for Series I units.

3 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. Since there are no direct trading costs associated with physical bullion trades, the trading expense ratio is nil.

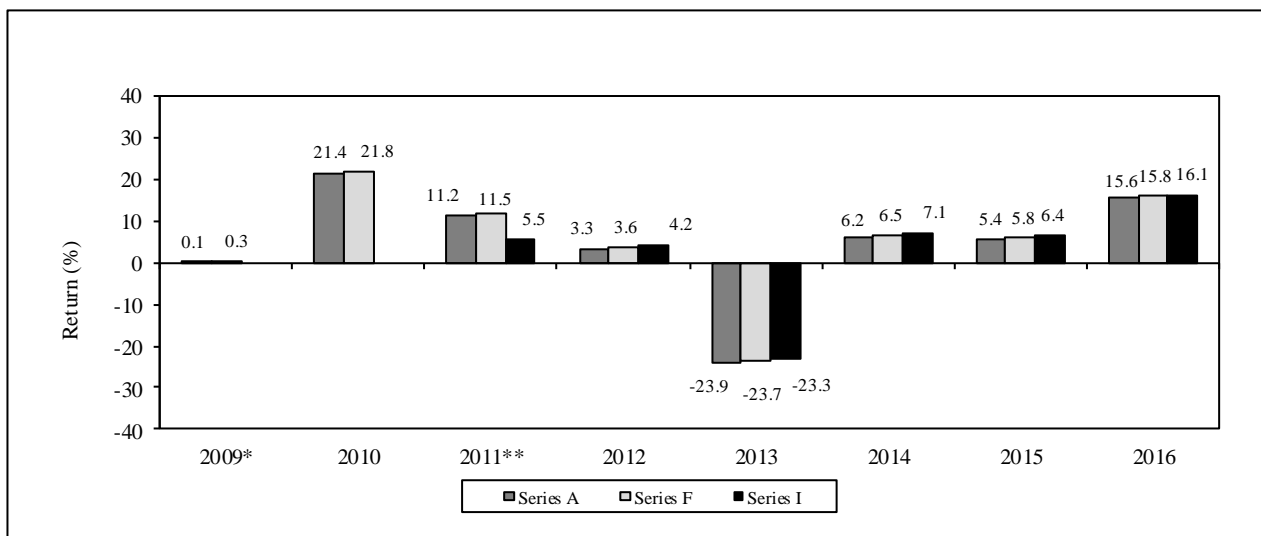
4 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

Past Performance

The indicated rates of return are the historical total returns including changes in unit values and assume reinvestment of all distributions in additional units of the relevant Series of the Fund. These returns do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that may reduce returns. Please note that past performance is not indicative of future performance. All rates of returns are calculated based on the Net Asset Value of the particular Series of the Fund.

Year-by-Year Returns

The following chart indicates the performance of each Series of the Fund for the six-month period ended June 30, 2016 and each of the previous twelve-month periods ended December 31 shown, unless otherwise noted. The chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each period.



* Return from March 17, 2009 to December 31, 2009 for Series A and F (not annualized).

** Return from June 6, 2011 to December 31, 2011 for Series I (not annualized).

Summary of Investment Portfolio

As at June 30, 2016

All Holdings

	% of Net Asset Value
Gold Bullion	99.6
Cash	0.2
Other Net Assets	0.2
Total Net Asset Value	100.0

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available on the Internet at www.sprott.com.

Corporate Information

Corporate Address

Sprott Asset Management LP
Royal Bank Plaza, South Tower
200 Bay Street, Suite 2700, P.O. Box 27
Toronto, Ontario M5J 2J1
T 416.943.6707
TOLL-FREE 866.299.9906
F 416.943.6497
E invest@sprott.com

For additional information visit our website:

www.sprott.com

Call our mutual fund information line for daily closing prices:

416.943.6707 or 866.299.9906

Auditors

KPMG LLP
Bay Adelaide Centre
333 Bay Street
Suite 4600
Toronto, Ontario M5H 2S5

Legal Counsel

Borden Ladner Gervais LLP
Scotia Plaza
40 King Street West
Toronto, Ontario M5H 3Y4