



Sprott Gold Bullion Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31

2016

The annual 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 annual financial statements of the investment fund. You can get a copy of the annual 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 and Recent Developments

The Fund, Series A gained 4.2% in 2016, versus spot gold, which gained 5.4% in Canadian dollar terms.

The main macroeconomic drivers affecting precious metal prices in 2016 were: The Bank of Japan (BoJ) announcing a negative interest rate policy in January, Brexit, the election of a Trump administration, and the December meeting of the Federal Open Market Committee (FOMC).

The BoJ announcement put the central banks of Japan and Europe, two of the three major central banks, in negative interest rate territory. Yields fell across the globe in response, while gold began a significant rally. The surprise results from the Brexit vote drove yields further down to record lows but, as the Brexit fallout failed to materialize, a rally in yields began, marking the high point for gold prices in 2016. A Trump victory surprised the market with a surging U.S. dollar, a sharp equity rally, and one of the worst bond market sell-offs in 25 years. Gold had a corresponding negative reaction and sold off aggressively. Finally, the Fed came out of the December FOMC meeting with a more hawkish outlook than expected, and this caused a further sell-off in silver and gold to end the year.

The Fund’s total net asset value decreased 8.4% during the period, from \$144.9 million at December 31, 2015 to \$132.7 million as at December 31, 2016. This change was predominantly due to net redemptions of \$18.7 million, offset by \$5.3 million in net realized gains on investments. The management expense ratio decreased compared to the prior period.

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 year ended December 31, 2016, the Fund incurred management fees of \$952,497 (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 \$25,015 during the year ended December 31, 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 years shown.

The Fund's Net Assets per Unit¹

	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Series A	\$	\$	\$	\$	\$
Net assets, beginning of period	11.84	11.24	10.58	13.91	13.47
Increase (decrease) from operations:					
Total revenue	-	-	-	-	-
Total expenses	(0.15)	(0.15)	(0.15)	(0.14)	(0.15)
Realized gains for the period	0.44	0.08	0.04	0.30	0.02
Unrealized gains (losses) for the period	0.17	0.73	0.85	(3.57)	0.50
Total increase (decrease) from operations²	0.46	0.66	0.74	(3.41)	0.37
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions³	-	-	-	-	-
Net assets, end of period	12.35	11.84	11.24	10.58	13.91
Series F	\$	\$	\$	\$	\$
Net assets, beginning of period	12.10	11.44	10.74	14.08	13.59
Increase (decrease) from operations:					
Total revenue	-	-	-	-	-
Total expenses	(0.11)	(0.12)	(0.12)	(0.11)	(0.11)
Realized gains for the period	0.48	0.08	0.04	0.36	0.02
Unrealized gains (losses) for the period	(0.03)	0.72	0.89	(3.84)	0.51
Total increase (decrease) from operations²	0.34	0.68	0.81	(3.59)	0.42
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions³	-	-	-	-	-
Net assets, end of period	12.66	12.10	11.44	10.74	14.07

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Series I	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
	\$	\$	\$	\$	\$
Net assets, beginning of period	9.61	9.03	8.43	10.99	10.55
Increase (decrease) from operations:					
Total revenue	-	-	-	-	-
Total expenses	(0.03)	(0.04)	(0.04)	(0.03)	(0.02)
Realized gains for the period	0.23	0.06	0.03	0.17	0.01
Unrealized gains (losses) for the period	0.54	0.41	0.38	(2.45)	(0.40)
Total increase (decrease) from operations²	0.74	0.43	0.37	(2.31)	(0.41)
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions³	-	-	-	-	-
Net assets, end of period	10.11	9.61	9.03	8.43	10.98

1 This information is derived from the Fund's 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.

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Ratios and Supplemental Data

	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Series A					
Total net asset value (000s) ¹	\$77,863	\$67,682	\$71,391	\$79,554	\$132,291
Number of units outstanding ¹	6,307,093	5,714,655	6,354,305	7,518,430	9,509,774
Management expense ratio ²	1.13%	1.27%	1.32%	1.17%	1.09%
Trading expense ratio ³	–	–	–	–	–
Portfolio turnover rate ⁴	9.14%	5.67%	1.14%	0.66%	0.99%
Net asset value per unit ¹	\$12.35	\$11.84	\$11.24	\$10.58	\$13.91
Series F					
Total net asset value (000s) ¹	\$54,314	\$42,216	\$43,769	\$50,515	\$135,555
Number of units outstanding ¹	4,291,464	3,488,345	3,825,169	4,702,996	9,630,362
Management expense ratio ²	0.79%	0.94%	0.99%	0.85%	0.77%
Trading expense ratio ³	–	–	–	–	–
Portfolio turnover rate ⁴	9.14%	5.67%	1.14%	0.66%	0.99%
Net asset value per unit ¹	\$12.66	\$12.10	\$11.44	\$10.74	\$14.08
Series I					
Total net asset value (000s) ¹	\$550	\$35,014	\$22,259	\$14,537	\$12,532
Number of units outstanding ¹	54,355	3,645,319	2,464,538	1,724,201	1,140,639
Management expense ratio ²	0.31%	0.39%	0.43%	0.26%	0.21%
Trading expense ratio ³	–	–	–	–	–
Portfolio turnover rate ⁴	9.14%	5.67%	1.14%	0.66%	0.99%
Net asset value per unit ¹	\$10.11	\$9.61	\$9.03	\$8.43	\$10.99

1 The information is provided as December 31 of the years shown.

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.

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.

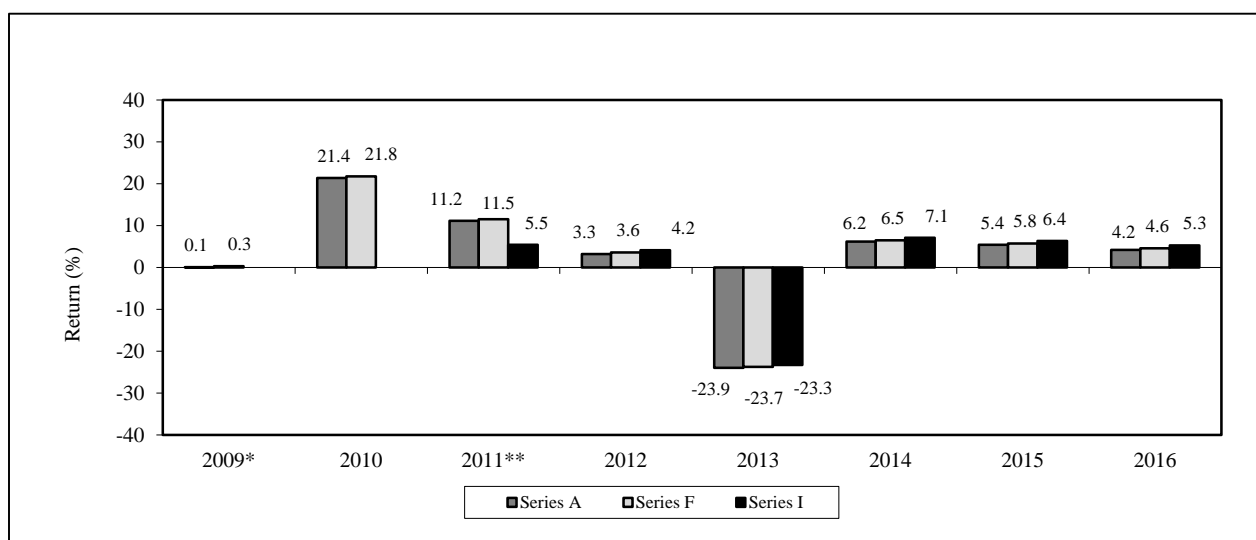
4 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio 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 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).

Annual Compound Returns

The following table illustrates the annual compound total return for Series A, F and I units of the Fund for the periods shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of the return on spot gold. Since the Fund has expenses related to its gold holdings, the performance of the Fund is not expected to equal the performance of spot gold.

	1-Year	3-Year	5-Year	Since Inception*
Sprott Gold Bullion Fund – Series A	4.2%	5.3%	-1.7%	2.8%
Spot Gold Return (CAD)	5.4%	6.5%	-0.6%	3.8%
Sprott Gold Bullion Fund – Series F	4.6%	5.6%	-1.4%	3.1%
Spot Gold Return (CAD)	5.4%	6.5%	-0.6%	3.8%
Sprott Gold Bullion Fund – Series I	5.3%	6.3%	-0.8%	0.2%
Spot Gold Return (CAD)	5.4%	6.5%	-0.6%	0.5%

* Since launch date of March 17, 2009 for Series A and F and June 6, 2011 for Series I.

Summary of Investment Portfolio

As at December 31, 2016

All Holdings

	% of Net Asset Value
Gold Bullion	99.5
Cash	0.3
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

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