Sprott Resource Corp.

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated financial statements, which consolidate the financial results of Sprott Resource Corp. (the "Company"), were prepared by management, who are responsible for the integrity and fairness of all information presented in the audited consolidated financial statements and management's discussion and analysis ("MD&A") for the years ended December 31, 2016 and 2015. The audited consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Financial information presented in the MD&A is consistent with that in the audited consolidated financial statements.

In management's opinion, the audited consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in note 2 of the audited consolidated financial statements. Management maintains a system of internal controls to meet its responsibilities for the integrity of the audited consolidated financial statements.

The board of directors (the "Board of Directors") of the Company appoints the Company's audit committee (the "Audit Committee") annually. Among other things, the mandate of the Audit Committee includes the review of the audited consolidated financial statements of the Company on a quarterly basis and the recommendation to the Board of Directors for approval. The Audit Committee has access to management and the auditors to review their activities and to discuss the external audit program, internal controls, accounting policies and financial reporting matters.

PricewaterhouseCoopers LLP performed an independent audit of the consolidated financial statements, as outlined in the auditors' report contained herein. PricewaterhouseCoopers LLP had, and has, full and unrestricted access to management of the Company, the Audit Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.

(signed) "*Stephen Yuzpe*"

Stephen Yuzpe
President and Chief Executive Officer

(signed) "*Michael Staresinic*"

Michael Staresinic
Chief Financial Officer

March 3, 2017

March 3, 2017

Independent Auditor's Report

To the Shareholders of Sprott Resource Corp.

We have audited the accompanying consolidated financial statements of Sprott Resource Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sprott Resource Corp. and its subsidiaries 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Amounts expressed in thousands of Canadian dollars

	Note		**Dec. 31, 2016**		Dec. 31, 2015
Assets					
Cash and cash equivalents		$	12,196	$	674
Trade and other receivables			407		173
Investments owned, at fair value	*3*		100,669		120,767
Total assets		**$**	**113,272**	$	121,614
Liabilities					
Trade and other payables	*14*	$	2,487	$	666
Credit facility	*4*		—		13,621
Total liabilities			2,487		14,287
Equity					
Capital stock	*5b*		280,902		280,902
Treasury stock	*5e*		(437)		(705)
Contributed surplus			3,307		3,351
Deficit			(172,987)		(176,221)
Total equity attributable to shareholders of the Company			110,785		107,327
Total liabilities and equity		**$**	**113,272**	$	121,614
Commitment	*11*				
Subsequent Event	*16*				

Approved by the Board of Directors

(signed) "Terrence Lyons"

Chairman

(signed) "Lenard F. Boggio"

Director

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

Amounts expressed in thousands of Canadian dollars except per share amounts and number of outstanding shares

	Note	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015
Investment gain (loss)			
Net gain (loss) on investments	*6*	$ 10,397	$ (111,953)
Dividend, royalty and other income		—	402
		10,397	(111,551)
Expenses			
General and administrative expenses	*7*	1,766	2,395
Management fees and compensation		2,240	3,641
Transaction costs	*8*	1,870	126
Finance expense	*4*	1,037	902
		6,913	7,064
Income (loss) before income tax		3,484	(118,615)
Income tax			
Current income tax recovery		—	879
Net income (loss) and comprehensive income (loss) attributable to shareholders		**$ 3,484**	$ (119,494)
Basic and diluted earnings (loss) per share	*10*	**$ 0.04**	$ (1.23)
Weighted average shares outstanding during the year			
Basic	*10*	**95,866,657**	96,856,381
Fully diluted	*10*	**96,672,102**	97,521,401

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

Amounts expressed in thousands of Canadian dollars

	Capital Stock	Treasury Stock	Contributed Surplus	Deficit	Total
Balance - January 1, 2015	$ 284,396	$ (772)	$ 3,262	$ (59,155)	$ 227,731
Loss for the period	—	—	—	(119,494)	(119,494)
Normal course issuer bid	(3,494)	—	—	2,648	(846)
Stock-based compensation	—	—	553	—	553
Shares acquired for equity incentive plan	—	(617)	—	—	(617)
Shares released on vesting of equity incentive plan	—	684	(464)	(220)	—
Balance - December 31, 2015	$ 280,902	$ (705)	$ 3,351	$ (176,221)	$ 107,327
Balance - January 1, 2016	$ 280,902	$ (705)	$ 3,351	$ (176,221)	$ 107,327
Income for the period	—	—	—	3,484	3,484
Stock-based compensation	—	—	482	—	482
Shares acquired for equity incentive plan	—	(508)	—	—	(508)
Shares released on vesting of equity incentive plan	—	776	(526)	(250)	—
Balance - December 31, 2016	**$ 280,902**	**$ (437)**	**$ 3,307**	**$ (172,987)**	**$ 110,785**

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

Amounts expressed in thousands of Canadian dollars

	Year Ended	
	Dec. 31, 2016	Dec. 31, 2015
Cash flows from operating activities		
Net income (loss) attributable to shareholders	$ 3,484	$ (119,494)
Items not affecting cash		
Net loss (gain) on investments	(10,397)	111,953
Stock-based compensation	482	553
Other	—	(33)
	(6,431)	(7,021)
Purchase of investments	(14,361)	(2,789)
Sale of investments	44,857	7,300
Changes in non-cash operating working capital		
Trade and other receivables	(234)	2,633
Trade and other payables	1,820	(3,301)
Accrued interest on credit facility	(921)	902
	31,161	4,745
Cash provided by (used in) operating activities	24,730	(2,276)
Cash flows from financing activities		
Proceeds from credit facility	4,500	5,700
Repayments of credit facility	(17,200)	(3,000)
Acquisition of treasury stock	(508)	(617)
Normal course issuer bid	—	(846)
Cash (used in) provided by financing activities	(13,208)	1,237
Change in cash and cash equivalents	11,522	(1,039)
Cash and cash equivalents - Beginning of year	674	1,713
Cash and cash equivalents - End of year	**$ 12,196**	$ 674
Supplemental Cash Flow Information:		
Interest paid on credit facility[1]	$ 1,868	$ —
Dividend income received[1]	—	402
	$ 1,868	$ 402

[1] *Amounts are included in the operating activities*

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

1. Corporate Information

Sprott Resource Corp. ("SRC" or the "Company") was incorporated under the *Canada Business Corporations Act* ("CBCA") on August 19, 1994. The primary purpose of the Company is to invest in the natural resource sector. The Company currently has investments in mining, agriculture and energy production and services.

SRC invests in the natural resource sector through Sprott Resource Partnership ("SRP"), a partnership formed pursuant to an amended and restated partnership agreement (the "Partnership Agreement") between SRC and Sprott Resource Consulting Limited Partnership (the "Managing Partner"), an affiliate of Sprott Consulting Limited Partnership ("SCLP"). All of the current holdings of SRC are held in SRP. The only assets not held in SRP are those assets necessary to administer the (i) public company and (ii) equity incentive plan of the Company (see Note 5e).

The Company holds all voting SRP units, entitling the Company to control the strategic, operating, financing and investing activities of SRP. The Managing Partner holds all non-voting SRP units and, within the terms and conditions established by the Company, manages SRP's investment activities and assets, and administers the day-to-day operations of SRP. The Managing Partner may be removed as the managing partner of SRP by way of a Special Resolution (as defined in the Partnership Agreement) approved by no less than two thirds of the votes cast by the holders of the voting partnership units who vote on the resolution.

The Company is listed on the Toronto Stock Exchange ("TSX").

The Company's head office is located at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2750, Toronto, Ontario, Canada, M5J 2J2.

On February 9, 2017, the Company was acquired by Adriana Resources Inc. ("ADI") (see Note 16).

These Financial Statements (as defined below) were approved for issue by the Board of Directors (the "Board") on March 3, 2017.

2. Accounting Policies

The following is a summary of the significant accounting policies applied in the preparation of these audited annual consolidated financial statements ("Financial Statements").

a. Basis of Preparation

These Financial Statements are prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

b. Consolidation

The Financial Statements of the Company include the accounts of SRC, SRP and the Sprott Resource Corp. 2014 Employee Profit Sharing Plan (the "Trust"). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In many, but not all instances, control will exist when the Company owns more than one half of the voting rights of a corporation, partnership or trust. The Company does not control any entities for which it owns less than one half of the voting rights of an entity, other than the Trust, which the Company is deemed to control.

As an investment entity, the Company accounts for its subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9, with the exception of SRP that provides services related to the Company's investment activities and the Trust, which provides the Company with its equity incentive plan. Subsidiaries providing such services are fully consolidated from the date on which control is obtained, and no longer consolidated from the date on which control ceases. Accounting policies of SRP and the Trust have been conformed where necessary to ensure consistency with the policies adopted by the Company.

c. Investment in Associates and Joint Ventures

Associates and Joint Ventures are entities over which the Company has significant influence or joint control, but not control. As permitted by IAS 28, *Investment in Associates and Joint Ventures*, the Company has elected to carry all such investments at FVTPL in accordance with IFRS 9.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

e. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Investments in equity instruments, derivatives and debt instruments that do not meet the criteria for amortized cost (see below) are classified as FVTPL. Financial assets classified as FVTPL are carried at fair value on the consolidated statements of financial position with realized and unrealized gains and losses recorded in the consolidated statements of operations and as an operating activity in the consolidated statements of cash flows.

A debt instrument is measured at amortized cost if (i) the objective of the Company's business model is to hold the instrument in order to collect contractual cash flows and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Alternatively, debt instruments that meet the criteria for amortized cost may be designated as at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch. Investments in equity instruments that are not held for trading may be irrevocably designated at fair value through other comprehensive income ("FVTOCI") on initial recognition. The Company has not designated any of its equity instruments at FVTOCI.

The Company recognizes purchases and sales of financial assets on the trade date, which is the date on which it commits to purchase or sell the asset. Transaction costs related to financial assets classified or designated as at FVTPL are expensed as incurred. A financial asset is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the Company has transferred substantially the risks and rewards of ownership of the asset.

Financial assets and liabilities measured at amortized cost, including the Company's cash and cash equivalents, trade and other receivables, trade and other payables and credit facility are recognized initially at the amount expected to be received or paid less, when material, a discount to reduce them to fair value. Subsequently, they are measured at amortized cost using the effective interest rate method less a provision for impairment, if any. Due to their short-term nature and low credit risk, the fair values of these financial assets and liabilities approximate their carrying amounts.

f. Net Gain (Loss) on Investments

Realized and unrealized gains and losses arising on the disposition and remeasurement of investments at fair value, including foreign exchange gains and losses, are included in net gain (loss) on investments in the Consolidated Statements of Operations.

g. Dividend Income

Dividends from instruments are recognized in the Consolidated Statements of Operations as part of dividend income when the Company's right to receive payment is established.

h. Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

For financial assets carried at amortized cost, the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

i. Foreign Currency Translation

These Financial Statements are presented in Canadian dollars, which is also the Company's functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rates prevailing at the measurement date. Foreign exchange gains and losses related to cash and cash equivalents are included in general and administrative expenses in the Consolidated Statements of Operations and those related to the Company's investments are included in net gain (loss) on investments.

j. Management Fees and Compensation

SCLP provides management services to the Company, which entitle it to management fees of 0.50% of the Quarterly Net Asset Value (as defined in the MSA, see Note 11) of SRC, less the total compensation paid to management by SRC for such fiscal quarter. The fee is accrued each quarter.

k. Profit Distribution

SRC, on an annual basis, will distribute to the Managing Partner 20% of the difference (if positive) (the "Management Profit Distribution") between: (i) the sum of the Net Profits of the Partnership and Net Losses of the Partnership (as defined in the Partnership Agreement) since the fiscal year in respect of which the last Management Profit Distribution was made; and (ii) the sum of the Annual Hurdles (as defined in the Partnership Agreement) for each fiscal year in respect of which the last Management Profit Distribution was made, except that if all or a portion of the Management Profit Distribution results from a non-cash disposition of an asset, all or such portion, as applicable, shall not be distributed to the Managing Partner until such non-cash consideration, or a portion thereof, as applicable, is disposed of for cash or cash equivalents provided that the Management Profit Distribution shall be determined by including in Net Profits of the Partnership only the amount of cash or cash equivalents received by the Partnership and not on the value of the non-cash consideration received upon disposition of the assets.

l. Employee and Director Benefits

Stock-based compensation

The Company uses the fair value method to account for equity settled share-based payments with employees and directors. Compensation expense is determined using the Black-Scholes option valuation model for stock options. Compensation expense for deferred stock units ("DSU") is determined based on the value of the Company's common shares at the time of grant. Compensation expense for the Company's Trust is determined based on the value of the Company's common shares on the grant date (see Note 5e). The amount of compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus other than for the Company's DSUs where the corresponding increase or decrease is to liabilities. Stock options and common shares held by the Trust vest in installments which require a graded vesting methodology to account for these share-based awards. On the exercise of stock options for shares, the contributed surplus previously recorded with respect to the exercised options and the consideration paid is credited to capital stock. On the vesting of common shares in the Trust, the contributed surplus previously recorded is credited to treasury stock. On the exercise of DSUs, the liability previously recorded is credited to cash.

m. Income Taxes

Current 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 based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Consolidated Statements of Financial Position date.

Deferred income tax assets and liabilities are provided on all temporary differences at the consolidated statements of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all taxable temporary differences except:

- When the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, the timing of the reversal of the temporary difference can be controlled, it is probable that the temporary difference will not reverse in the foreseeable future and, for deferred income tax assets, taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each Consolidated Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the Consolidated Statements of Financial Position date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

n. Capital Stock

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

o. Treasury Stock

Treasury shares are classified as equity. Treasury shares arise when the Trust purchases shares on the open market for the purpose of the equity incentive plan.

p. Earnings (Loss) per Share

Earnings (loss) per share are presented for basic and diluted earnings. Basic per share information is computed by dividing the net income or loss of the Company by the weighted average number of common shares outstanding during the period. The weighted average number of shares for fully diluted earnings per share information is calculated using the treasury stock method whereby it is assumed that (i) proceeds obtained upon exercise of options would be used to purchase common shares at the average market price during the period and (ii) all unvested treasury shares are deemed to have vested. Under the treasury stock method, options have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options (they are "in-the-money"). Exercise of in-the-money options is assumed at the beginning of the period or date of issuance, if later. Unvested treasury shares are assumed to have vested at the beginning of the period or date of issuance, if later. Should the Company have a loss for the period, options and unvested treasury shares would be anti-dilutive and therefore would have no effect on the determination of diluted loss per share.

q. Critical Accounting Estimates and Judgments

Estimates by management represent an integral component of the Financial Statements prepared in conformity with IFRS. The estimates made in the Financial Statements reflect management's judgments based on past experiences, present conditions and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time the Financial Statements were prepared.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are the fair value of unlisted instruments. The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair value outlined in Note 13.

Fair value of investments

The Company's investments are recorded in the Consolidated Statements of Financial Position at fair value. Management uses their judgment to select a variety of methods and make assumptions that are not always supported by quantifiable market prices or rates. Judgment is required in order to determine the appropriate valuation methodology under this standard and subsequently in determining the inputs into the valuation model used. These judgments include assessing the future earnings potential of investee companies, appropriate earnings multiples to apply, adjustments to comparable multiples, liquidity and net assets. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates in these Financial Statements. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these Financial Statements and the differences may be material. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values of various assets and liabilities. The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets.

The fair value of the other financial instruments is determined using the valuation techniques described in Note 13.

The Company classifies the fair value of its financial instruments according to the following hierarchy, which is based on the nature of the observable inputs used to value the instrument:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 – inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs that are unobservable for the asset and liability.

Determination of investment entity status

The most significant judgment made in preparing the Financial Statements is the determination that the Company is an investment entity. In accordance with IFRS 10, an investment entity is an entity that: "obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis." In determining its status as an investment entity, the most significant judgments made include the determination by the Company that its investment-related activities with subsidiaries, other than SRP, do not represent a separate substantial business activity and that fair value is the primary measurement attribute used to monitor and evaluate substantially all of its investments.

Stock-based compensation

Equity compensation through the Trust can only be granted to employees and directors when the Company is permitted to purchase its own shares through the TSX. From time-to-time, equity compensation is approved during a period of blackout which requires management to estimate the number of shares that will ultimately be granted as equity compensation.

3. Investments

The Company has a portfolio of investments in securities of public and private companies. The following is a summary of the Company's investments and their fair values:

	As at	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Mining	$ 51,040	$ 9,276
Agriculture	30,268	57,243
Energy production and services	19,361	54,248
Total investments owned, at fair value	**$ 100,669**	$ 120,767

The Company's investments are solely comprised of equity holdings as at December 31, 2016 (investments at December 31, 2015 were in equity holdings other than a royalty interest in the amount of $0.5 million that was included in energy production and services).

For the year ended December 31, 2016, the Company disposed of six investments for gross proceeds of approximately $44.9 million (year ended December 31, 2015: disposed of four investments for gross proceeds of approximately $7.3 million).

As an investment entity, the Company accounts for all of its investments at FVTPL, including investments in subsidiaries (other than those which provide services related to the Company's investing activities) and associates. Further information about the Company's subsidiary is as follows:

Name	Type	Principal place of business	Country of Incorporation	Ownership Interest %	Voting Rights %
One Earth Farms Corp. ("OEF")	A Vertically Integrated Healthy Food Company	Canada	Canada	49.98%	49.98%

4. Credit Facility

On September 29, 2015, the Company as the borrower and SRP as the guarantor entered into an amended and restated credit facility ("Facility") with Sprott Resource Lending Corp. ("SRLC"), a subsidiary of Sprott Inc., the parent company of the Managing Partner, as subsequently amended by an amending agreement dated May 10, 2016. The Facility was an $18.0 million term facility that matured on November 11, 2016 ("Maturity Date") and was available for general corporate purposes. Upon signing the amending agreement SRC paid a commitment fee equal to 0.5% of the Facility. Interest accrued daily at 8% per annum, compounded monthly. All obligations of the Company under the Facility were unconditionally guaranteed by SRP.

On October 13, 2016, the Company repaid the Facility in full. The outstanding balance at December 31, 2015 was $13.6 million, which included capitalized interest of $0.9 million.

Finance expense as disclosed in the Consolidated Statements of Operations is shown below:

	Year ended	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Finance expense	**$ 947**	$ 902
Fees	**90**	—
	$ 1,037	$ 902

Tabular amounts expressed in thousands of Canadian dollars except per share amounts which are in Canadian dollars

5. Equity

a) Authorized

Unlimited common shares with no par value.

The holders of the common shares are entitled to one vote per share and are entitled to dividends, when and if declared by the Board of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

b) Issued and outstanding

	Common shares (#)		Amount
Balance - January 1, 2015	97,874,503	$	284,396
2015 normal course issuer bid - repurchase of capital stock	(1,202,401)		(3,494)
Balance - December 31, 2016 and 2015	**96,672,102**	**$**	**280,902**

c) Stock options

The number of common shares available under the Company's stock option plan is limited to a maximum of 5% of the issued common shares at the time of granting of options. Subject to any employment contracts, each option grant is exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term cannot exceed 10 years, subject to extension in the event that the expiry date falls within a "blackout" period. The Board has determined to discontinue issuance of stock option. On February 9, 2017, the stock option plan was cancelled as a result of the acquisition of the Company by ADI (see Note 16).

The number of stock options outstanding as at December 31, 2016 is 200 thousand (December 31, 2015: 227 thousand) at a weighted average exercise price of $4.03 (December 31, 2015: $4.31). The exercise price ranges from $4.00 per common share to $4.07 per common share with expiry dates in May 2017 and August 2017.

d) Normal course issuer bid

On September 4, 2015, the Company announced that it had received approval from the TSX to commence a normal course issuer bid ("2015 NCIB") beginning on September 10, 2015 to repurchase and cancel up to 8.5 million of its common shares, representing approximately 8.99% of the public float of the Company and approximately 8.73% of the total number of issued and outstanding shares at that time. The 2015 NCIB ended on September 9, 2016 and for the year ended December 31, 2016, the Company did not purchase nor cancel any common shares (year ended December 31, 2015: $1.2 million) under its normal course issuer bid.

e) Treasury stock

On May 21, 2014, the Company adopted an equity incentive plan for its employees and directors. The Trust has been established and the Company funds the Trust with cash, which is used by the trustee to purchase common shares of the Company on the open market and held in the Trust by the trustee until the awards vest and are allocated to eligible members. Vesting of the awards are at the discretion of the Board.

The Trust purchased 898 thousand common shares for the year ended December 31, 2016 (for the year ended December 31, 2015: 718 thousand). During the year ended December 31, 2016, 736 thousand common shares were released on vesting from the equity incentive plan.

	Common shares (#)		Amount
Common shares held by the Trust, December 31, 2015	372,505	$	705
Acquired for equity incentive plan	897,699		508
Released on vesting of equity incentive plan	(736,112)		(776)
Unvested common shares held by the Trust, December 31, 2016	**534,092**	**$**	**437**

For the year ended December 31, 2016, the Company recorded stock-based compensation expense of $482 thousand (year ended December 31, 2015: $553 thousand), of which $174 thousand (year ended December 31, 2015: $251 thousand) has been recorded in management fees and compensation and $308 thousand (year ended December 31, 2015: $302 thousand) has been recorded in general and administrative expense with a corresponding increase to contributed surplus during the year.

	Year ended	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Stock option plan	$ —	$ 35
Trust	482	518
	$ 482	$ 553

6. Net Gain (Loss) on Investments

	Year ended	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Net realized loss on investments	$ (201,816)	$ (1,400)
Reversal of previously recorded unrealized loss on investments[1]	201,816	1,400
Change in unrealized gain (loss) on investments	12,851	(124,019)
Change in unrealized foreign exchange gain (loss) on investments	(2,454)	12,066
Net gain (loss) on investments	**$ 10,397**	$ (111,953)

[1] *Amounts resulting from accounting reversals of investments sold in the period*

7. General and Administrative Expenses

	Year ended	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Professional fees	$ 307	$ 363
Public company reporting costs	957	1,168
Foreign exchange gain on cash and cash equivalents and interest earned on cash and cash equivalents	(105)	(15)
Office expenses	607	879
	$ 1,766	$ 2,395

Included in public company reporting costs are $307 thousand of Director stock-based compensation for the year ended December 31, 2016 (year ended December 31, 2015: $178 thousand).

Tabular amounts expressed in thousands of Canadian dollars except per share amounts which are in Canadian dollars

8. Transaction Costs

	Year ended	
	Dec. 31, 2016	Dec. 31, 2015
Commissions and professional fees related to investments	$ 278	$ 126
Professional fees related to the acquisition of the Company by ADI	1,592	—
	$ 1,870	$ 126

9. Current and Deferred Income Taxes

Income tax expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate of 26.5% (December 31, 2015: 26.5%) to income (loss) before income taxes as shown in the following table:

	Year ended	
	Dec. 31, 2016	Dec. 31, 2015
Income (loss) before income tax	$ 3,484	$ (118,615)
Combined statutory federal and provincial income tax rate	26.5%	26.5%
Combined income taxes at statutory tax rate	$ 923	$ (31,433)
Non-deductible and non-taxable items	(6)	17
Non-deductible (non-taxable) portion of capital losses	22	188
Non-deductible portion of unrealized (gains) losses on investments	(1,384)	14,648
Non-taxable dividends	—	(107)
Adjustments in respect of prior years	—	456
Derecognition of deferred tax asset	445	17,110
Tax expense as per consolidated statement of operations	**$ —**	$ 879

The gross movements in the net deferred income tax account are as follows:

	Year ended	
	Dec. 31, 2016	Dec. 31, 2015
Balance - beginning of year	$ —	$ —
Statement of Operations charge	—	—
Balance - end of year	**$ —**	$ —

	As at	
	Dec. 31, 2016	Dec. 31, 2015
Non-capital losses carried forward	11,831	6,808

10. Earnings (Loss) per Share

Earnings (loss) per share is calculated by dividing the net income (loss) of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. The potentially dilutive shares of the Company relate to stock options and treasury stock. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the exercise prices of outstanding stock options. The number of shares calculated as described in the preceding sentence is compared with the number of shares that would have been issued assuming the exercise of the stock options. All unvested treasury shares are deemed to have vested at the beginning of the period or date of issuance, if later.

		Year ended		
(in thousands except per share amounts)		**Dec. 31, 2016**		Dec. 31, 2015
Net income (loss) and comprehensive income (loss) attributable to shareholders	$	3,484	$	(119,494)
Weighted average number of shares - basic		95,867		96,856
Weighted average number of shares - fully diluted		96,672		97,521
Basic and fully diluted income (loss) per share	$	0.04	$	(1.23)

11. Commitment

SRC Management Services Agreement ("MSA")

SRC invests and operates in the natural resource sector through SRP. Substantially all of the holdings of SRC are held by SRP. The only assets not held by SRP are those assets necessary to administer the public company. SRC owns nearly all of SRP (approximately 99.99%), other than the managing partnership interest owned by the Managing Partner (approximately 0.01%).

The Managing Partner has the power and authority to transact the business of SRP and to deal with and in SRP's assets for the use and benefit of SRP, except as limited by any direction of the Board, and subject to certain limits on authority established from time to time by the Board.

The Managing Partner holds all non-voting partnership units and, within the terms and conditions established by the Company, will manage SRP's investment activities and assets, and administer the day-to-day operations of SRP. The Managing Partner of SRP may be removed by way of a Special Resolution (as defined in the Partnership Agreement) approved by no less than two thirds of the votes cast by the holders of the voting partnership units who vote on the resolution. SRC holds all of the voting partnership units of SRP.

In connection with the Arrangement (as defined in Note 16), the MSA was terminated and a new management services agreement was entered into between Sprott Resource Holdings Inc. and SCLP (see Note 16).

12. Related Party Transactions

a) Purchases of Services

The Company entered into the following transactions with related parties during the year ended December 31, 2016 and year ended December 31, 2015:

Management fees and employment compensation pursuant to the MSA for the year ended December 31, 2016 were $2.2 million (year ended December 31, 2015: $3.6 million). The employment compensation portion was paid directly to employees and consultants of SRC provided by SCLP and the remainder was paid and payable to SCLP, an entity with directors and officers in common. As at December 31, 2016, there was $0.2 million (December 31, 2015: $0.2 million) payable to SCLP for management fees calculated pursuant to the MSA.

As described in Note 4, the Company entered into a Facility with SRLC, a subsidiary of Sprott Inc., the parent company of the Managing Partner. The Facility was repaid in full on October 13, 2016.

Transactions with related parties are recorded at the price agreed between the parties. Transactions in the normal course of business are measured at the monetary amount, which is the amount of consideration established, agreed to and paid by the related parties based on standard commercial terms.

b) Key Management Compensation

Compensation for services paid or payable to executive officers and independent directors of the Company is shown below:

	Year ended	
(in thousands)	**Dec. 31, 2016**	Dec. 31, 2015
Compensation paid by and on behalf of SRC for executive management services provided to the Company (including stock-based compensation)	$ 1,002	$ 1,448
Directors fees	360	360
Directors stock-based compensation	307	178
	$ 1,669	$ 1,986

13. Fair Value Estimation

All of the Company's investments are carried at fair value. SRC includes investments in private companies in Level 3 of the fair value hierarchy (see Note 2) because they trade infrequently and have limited observable inputs. The Company's exchange-traded investments that are quoted in active markets are measured at fair value using closing prices.

The Company has provided fair market disclosure for its portfolio of investments by three industry groups. The mining industry group consists of two mining companies, one of which is in the exploration stage and one that is in the producing stage. The agriculture industry group consists of two agriculture-related companies. One company is based in Uruguay and the other in Canada with both operations and risks linked to agricultural commodities. The energy production and services industry group consists of (i) one oil and gas exploration and production ("E&P") investment and (ii) one technology company for the benefit of oil and gas E&P companies. The companies in each of the three industry groups share similar risk profiles and have therefore been grouped together.

The following table presents the classification within the levels of the fair value hierarchy.

As at December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments - mining	$ 51,040	$ —	$ —	$ 51,040
Investments - agriculture	—	—	30,268	30,268
Investments - energy production and services	14,122	—	5,239	19,361
	$ 65,162	$ —	$ 35,507	**$ 100,669**

As at December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments - mining	$ 9,276	$ —	$ —	$ 9,276
Investments - agriculture	—	—	57,243	57,243
Investments - energy production and services	$ 39,934	$ 473	$ 13,841	$ 54,248
	$ 49,210	$ 473	$ 71,084	**$ 120,767**

The Company's policy is to recognize transfers to and from fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the third quarter of 2016, the Company transferred its investment in InPlay Oil Corp. ("InPlay Oil") from Level 3 to Level 2 recognizing the announcement by InPlay Oil to enter into a plan of arrangement with Anderson Energy Inc. ("Anderson"), a public company, and continue as a newly combined public company. The transaction with Anderson was completed in the fourth quarter of 2016 resulting in InPlay Oil being transferred from Level 2 to Level 1.

Tabular amounts expressed in thousands of Canadian dollars except per share amounts which are in Canadian dollars

The following presents the movement in Level 3 instruments for the year ended December 31, 2016 and for the year-ended December 31, 2015:

		Dec. 31, 2016		Dec. 31, 2015
Opening balance	$	71,084	$	114,943
New investments		—		750
Transfer of investment to Level 1		(8,602)		—
Unrealized losses in the year		(26,976)		(44,609)
Ending balance	**$**	**35,507**	$	71,084

Valuation Methodologies

The Company's executive management team together with the investment and finance departments are responsible for determining fair value measurements included in the Financial Statements, including Level 3 measurements. The valuation processes and results are reviewed and approved by the Chief Executive Officer and Chief Financial Officer at least once every quarter, in line with the Company's quarterly reporting dates. Valuation results are discussed with the Audit Committee and Board as part of its quarterly review of the Company's Financial Statements.

The Company determines the fair values of its investments categorized in Level 3 using book value, discounted cash flows, earnings and revenue multiple methodologies, reference to recent transaction prices, public company comparables or a combination thereof. At least annually (unless determined otherwise), each investment classified as a Level 3 investment is valued by an independent third-party professionally accredited valuator. The Company staggers the third-party valuation process over four quarters such that each Level 3 investment is independently valued within a 12-month period (unless determined otherwise).

In applying an earnings multiple methodology, management applies a market-based multiple that is appropriate and reasonable to the maintainable earnings of the portfolio company. In many cases, the enterprise value of the underlying business is derived by the use of an earnings multiple applied to the current year's earnings where these can be forecast with a reasonable degree of certainty and are deemed to represent the best estimate of maintainable earnings. In other cases, earnings for periods in excess of the current year's earnings may be used when the specifics of the industry and the portfolio company are warranted. Where this is not the case, historic earnings will generally be used. In the absence of earnings, revenue multiples may be considered if deemed appropriate.

Management will normally derive the earnings and/or revenue multiple by reference to current market based multiples reflected in the valuations of quoted comparable companies or the price at which comparable companies have changed ownership. Differences between the comparable multiple and the unquoted company being valued are reflected by adjusting the multiple for points of difference. The reasons why such adjustments may be necessary include the following:

- size and diversity of the entities;
- rate of growth of earnings / revenues;
- reliance on a small number of key employees;
- diversity of product ranges;
- diversity and quality of customer base;
- level of borrowing;
- any other reason the quality of earnings / revenues may differ; and
- risks arising from the lack of marketability of the shares.

Where a recent investment has been made, either by the Company or by a third party in one of SRC's investments, after considering the background of the underlying investment, this price will generally be used as the estimate of fair value, subject to consideration of changes in market conditions and company specific factors. Other methodologies, as detailed above, may be used at any time if this is deemed to provide a more accurate assessment of the fair value of the investment. The indicators that the price of recent investment may no longer be appropriate include:

- significant under/over achievement of budgeted earnings;
- concerns with respect to debt covenants or refinancing;
- significant movements in the market sector of the investment;
- regulatory changes in the industry; and,
- the passage of time.

Tabular amounts expressed in thousands of Canadian dollars except per share amounts which are in Canadian dollars

Quantitative information about fair value measurements as at December 31, 2016 using significant unobservable inputs (Level 3) is as follows:

Description	Valuation technique(s)	Significant unobservable input(s)	Range of significant unobservable inputs
Investments - energy production and services			
RII	Recent Transaction Price	Discount rate applied to recent capital raise	40% - 60% discount
Investments - agriculture			
Union Agriculture	Adjusted net assets	Marketability of shares	50% discount
OEF	Adjusted net assets	Biological asset fair value	Midpoint of third-party Canadian index for commodity beef[1]

[1] *Biological assets at OEF are predominantly organic and natural cattle for which a third party Canadian index is not available.*

Financial assets and liabilities that are not measured at fair value in the Consolidated Statements of Financial Position are represented by cash and cash equivalents, trade and other receivables, Facility and trade and other payables. Due to their short-term nature and low credit risk, the fair values of these financial assets and liabilities approximate their carrying amounts.

The Company's Level 3 investments consist of investments in the (i) energy production and services, and (ii) agriculture sectors. The sensitivity of these investments' fair values is highly correlated to numerous unobservable inputs, the interrelationships of which are difficult to determine.

14. Financial Risk Management

The Company's activities expose it to certain financial risks during or at the end of the reporting period as described below.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and the Company's investments expose it to this risk. Market risk includes interest rate risk, foreign currency risk and other price risk such as commodity price risk. The sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated - for example, changes in interest rates and changes in foreign currency rates.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to minimal interest rate risk from its interest bearing financial instruments as they typically have short-term maturities. The Company is no longer exposed to interest rate risk on its Facility as the Company repaid the Facility in full on October 13, 2016.

Through the equity portion of some of its investments, the Company is also indirectly exposed to interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has exposure to foreign currency risk due to the effects of changes in foreign exchange rates related to certain U.S. denominated investments and cash and cash equivalents. The Company is also indirectly exposed to foreign exchange risk due to the effects of changes in foreign exchange rates related to the underlying operations of some of its underlying investments. These risks are monitored and evaluated for their effects on cash flows and the benefits of hedging strategies are continuously reviewed.

As at December 31, 2016, approximately $16.9 million or 14.9% (December 31, 2015: $66.1 million or 54.3%) of total assets were invested in proprietary investments priced in USD. As at December 31, 2016, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant, the increase or decrease, respectively, in net income for the year ended December 31, 2016 would have amounted to approximately $0.8 million (for the year-ended December 31, 2015: $3.3 million).

Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Company is subject to price risk through its public equity investments. The Company's private market investments are also subject to price risk as they are impacted by many general and specific market variables.

A 10% increase/decrease in the value of all public equity and private market investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss in the amount of $10.1 million.

Commodity Price Risk

Commodity price risk is the risk that the fair values or cash flows associated with the Company's investments will vary due to changes in the prices of a particular commodity, e.g. oil, natural gas liquids, natural gas, agricultural crops or livestock. The Company's investee companies may engage in various programs to mitigate exposure to commodity price risk.

The Company is exposed to commodity price risk in respect of several of its investments since their revenues are dependent on the market price of metallurgical and thermal coal, petroleum, natural gas or agricultural products. The price of these commodities is volatile and subject to fluctuations that may have a significant effect on the ability of the investee companies to meet their obligations, capital spending targets or commitments, and expected operational results which in turn impacts their fair values as recorded by the Company.

Credit Risk

Credit risk is the risk that a third party will fail to meet its contractual obligations, which could result in the Company incurring a loss. Trade and other receivables are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk.

The Company has no significant concentrations of credit risk and its exposure to credit risk arises through the Company's cash held primarily through large Canadian financial institutions with credit ratings of AA or higher.

Credit risk is also managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational costs.

The Company invests in securities of public and private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit these investments when the Company considers it appropriate.

The following are contractual maturities of financial liabilities as at December 31, 2016:

(in thousands)	Carrying Amount	Contractual Amount	Less than one year	One to two years	Greater than two years
Financial liabilities					
Trade and other payables	$ 2,487	$ 2,487	$ 2,487	$ —	$ —

Concentration Risk

Concentration risk is the risk that any single or group of exposures will have the potential to produce losses large enough to threaten the ability of an entity to continue operating as a going concern. The Company's investment portfolio is concentrated in the following segments as at:

	Dec. 31, 2016	Dec. 31, 2015
Mining	46.1%	8.6 %
Agriculture	27.3%	53.3 %
Energy production and services	17.5%	50.5 %
Cash, trade and other receivables less total liabilities	9.1%	(12.4)%
Total equity attributable to shareholders of the Company	**100%**	100 %

One mining investment represents approximately 99% of the Mining segment above and approximately 46% of total equity attributable to shareholders of the Company.

15. Capital Management

The capital the Company manages is the equity on the Consolidated Statements of Financial Position. The objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, repurchase for cancellation outstanding shares, acquire or dispose of assets, incur short-term or long-term debt or adjust the amount of cash and cash equivalents and investments.

16. Subsequent Event

a) Business Combination with ADI

On February 9, 2017, the Company and Adriana Resources Inc. ("ADI") 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.WT.

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.

The Managing Partner received 21,750,000 Warrants as a long-term incentive to replace the profit distribution program that was in place at SRP 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 the Company control SRHI and the majority of the board of directors of SRHI are represented by the Company's board of directors. For accounting purposes, the Arrangement resulted in the reverse takeover of SRHI by the Company and the Company 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 the Company 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.

Unaudited - Amounts expressed in thousands of Canadian dollars except per share amounts and number of outstanding shares

		2016		2015
Investment gain (loss)				
Net gain (loss) on investments	$	7,537	$	(26,201)
Dividend, royalty and other income		—		—
		7,537		(26,201)
Expenses				
General and administrative expenses		451		494
Management fees and compensation		576		623
Transaction costs		1,441		67
Finance expense		25		279
		2,493		1,463
Income (loss) before income tax		5,044		(27,664)
Income tax				
Current income tax recovery		—		885
Net income (loss) and comprehensive income (loss) attributable to shareholders	**$**	**5,044**	$	(28,549)
Basic and diluted earnings (loss) per share	**$**	**0.05**	$	(0.30)
Weighted average shares outstanding during the year				
Basic		**95,654,648**		95,719,791
Fully diluted		**96,672,102**		97,156,327

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Stock Information

Sprott Resource Holdings Inc. common shares are traded on the Toronto Stock Exchange under the symbol "SRHI"

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