Throughout the month of August, the oil market continued to offer signs that the rebalancing is in full effect and that the oil price will continue to grind higher. Production around the world (with the odd exception) continues to fall at the fastest pace in history and at the same time there remains no reason to be concerned about a dramatic slowdown in demand.

On August 25th, the Wall Street Journal ran a story about Chinese oil production (4th largest non-OPEC producer) and highlighted something that we have been talking about for several months. Due to an implosion in industry cash flow, high offshore decline rates ~15%, and poor exploration results over the past several years Chinese oil production has been falling steadily and in June fell by the largest amount in its history (down 376,000 Bbl/d YOY). The article went on to suggest that Chinese production “is entering long-term stagnation and decline.” In August, we learned that Colombian oil production continued to fall and was also down in the most in its history (down 102,000 Bbl/d YOY or 10.7%). Mexico continued to not disappoint (if you are an oil bull) with production now down by around 33% since 2014. Russian oil production in July dipped by the largest monthly amount in several years (now down 200,000Bbl/d from the beginning of the year). Production in the United States continued to fall with production now down by around 33% since 2014. Russian oil production in July dipped by the largest monthly amount in several years (now down 200,000Bbl/d from the beginning of the year). Production in the United States continued to fall with production now down by around 33% since 2014. Russian oil production in July dipped by the largest monthly amount in several years (now down 200,000Bbl/d from the beginning of the year). Production in the United States continued to fall with production now down by around 33% since 2014. Russian oil production in July dipped by the largest monthly amount in several years (now down 200,000Bbl/d from the beginning of the year). Production in the United States continued to fall with production now down by around 33% since 2014.

Also in August, it was confirmed that 2015 was the worst year for exploration results since 1947… a 70 year low! This impressive industry achievement comes after several years of increasingly poorer and poorer exploration results and speaks to the growing maturity of our oil producing basins. Discoveries are becoming both smaller and less frequently found. The likes of Dennis Gartman need to remember this when pontificating about $15/bbl oil!

Oil continues in the short-term to be highly volatile. July concerns about high gasoline inventory levels led to the short interest increasing to the highest level in history (previous all-time high was February of this year) and then over the past 2 weeks we have had the sharpest draw down in the short interest (ie. short covering) in history (we seem to be making a lot of records this year) on increased talks of an OPEC production freeze. The informal OPEC meeting will occur at the end of September and until then oil will continue to gyrate due to the whims of various oil ministers and “unnamed sources.”

Finally everyone is guessing as to the timing of the inevitable increase in US interest rates and with it the concern that a stronger US dollar means a lower oil price (maybe true for a day or two but not so much in the medium term). Given the level of volatility and the uncertainty around the outcome of the informal OPEC meeting (which is completely meaningless since OPEC lacks any significant spare capacity unless peace breaks out in Nigeria or Libya) we have assumed a defensive position with the Fund and have an approximate 50% cash weighting. Further supporting this stance is seasonality with September historically being the weakest month of the year for oil (high season for refinery downturns due to seasonal maintenance), oil stocks, and the market in general. Our intent is to be meaningfully more invested later this month or into October depending on the opportunities that the market provides us.

Looking to 2017 we continue to believe that oil will trade to $60/bbl. With demand increasing this year by ~1.4MM Bbl/d, non-OPEC production falling, and global oil inventories falling since April the inevitable reality is that we need more oil drilling and that can’t happen at a meaningfully high enough level without ~ $60/bbl oil. At the same time given the largest drop in spending in history and the massive deferral/cancellation of long-lead mega-projects we continue to believe
that the oil market will remain very tight until at least 2020. So the medium term and long-term outlook for oil and oil stocks is quite solid… we just need to get through the next month or two of volatility. We would also point out that in recent days while oil has been weak oil stocks have not sold off nearly as much as one might have expected. Why? Despite what we had previously thought it appears that investors are still underweight the energy sector (on August 22nd CIBC estimated that generalist investors are still underweight by 13%). What this means is that dips will likely be bought and the days of wild 10% sell-offs are likely behind us as this source of latent buying power gets used.

Thank you for your continued support.

Eric Nuttall
Portfolio Manager
Sprott Energy Fund

*COMPOUNDED RETURNS (%) AS AT AUGUST 31, 2016*

<table>
<thead>
<tr>
<th>Fund</th>
<th>1 MTH</th>
<th>YTD</th>
<th>3 MTH</th>
<th>6 MTH</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>ANNUALIZED INCEPTION (04/15/04)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPROTT ENERGY FUND, SERIES A</td>
<td>4.1</td>
<td>42.4</td>
<td>1.6</td>
<td>52.1</td>
<td>23.9</td>
<td>3.7</td>
<td>-1.5</td>
<td>-1.0</td>
<td>5.2</td>
</tr>
<tr>
<td>S&amp;P/TSX CAPPED ENERGY TRI</td>
<td>4.0</td>
<td>22.6</td>
<td>3.6</td>
<td>28.9</td>
<td>10.2</td>
<td>-6.0</td>
<td>-4.4</td>
<td>-2.5</td>
<td>3.8</td>
</tr>
</tbody>
</table>
All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2016; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Sprott Asset Management LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: concentration risk; credit risk; currency risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; tax risk.

Sprott Asset Management LP is the investment manager to the Sprott Funds (collectively, the “Funds”). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series A units of the Fund for the period ended August 31, 2016 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections (“information”) contained within this report are solely those of Sprott Asset Management LP (“SAM”) and are subject to change without notice. SAM makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, SAM assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. SAM is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Sprott Asset Management LP. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Sprott Asset Management LP is or will be invested. SAM LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. SAM LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, SAM LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.