Sprott Resource Holdings Inc.

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated financial statements, which consolidate the financial results of Sprott Resource Holdings Inc. (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, 2017 and 2016. 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 2, 2018

March 2, 2018

Independent Auditor's Report

To the Shareholders of Sprott Resource Holdings Inc.

We have audited the accompanying consolidated financial statements of Sprott Resource Holdings Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 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 Holdings Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 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, 2017**	Dec. 31, 2016
Assets			
Cash and cash equivalents		$ 36,208	$ 12,196
Trade and other receivables		1,164	407
Investments owned, at fair value	*4*	115,412	100,669
Total assets		**$ 152,784**	$ 113,272
Liabilities			
Trade and other payables		$ 2,033	$ 2,487
Total liabilities		2,033	2,487
Equity			
Capital stock	*6b*	355,927	280,902
Warrants	*6b*	7,996	—
Treasury stock	*6d*	(242)	(437)
Contributed surplus		2,323	3,307
Deficit		(215,253)	(172,987)
Total equity attributable to shareholders of the Company		150,751	110,785
Total liabilities and equity		**$ 152,784**	$ 113,272

Subsequent Event *17*

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.

Sprott Resource Holdings Inc.
Consolidated Statements of Operations
For the years ended December 31, 2017 and 2016
Amounts expressed in thousands of Canadian dollars except per share amounts and number of outstanding shares

		Year Ended	
	Note	**Dec. 31, 2017**	Dec. 31, 2016
Investment gain (loss)			
Net gain (loss) on investments	*7*	$ (35,620)	$ 10,397
		(35,620)	10,397
Expenses			
General and administrative expenses	*8*	1,280	1,852
Management fees and compensation		2,898	2,240
Transaction costs	*9*	1,506	1,870
Finance expense	*5*	—	1,037
Foreign currency translation loss (gain)		868	(86)
		6,552	6,913
Net income (loss) and comprehensive income (loss) attributable to shareholders		**$ (42,172)**	$ 3,484
Basic and diluted income (loss) per share		**$ (0.07)**	$ 0.01
Weighted average shares outstanding during the period			
Basic	*11*	**582,648,984**	287,599,972
Fully diluted	*11*	**582,648,984**	290,016,306

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

Amounts expressed in thousands of Canadian dollars

	Capital Stock	Warrants	Treasury Stock	Contributed Surplus	Deficit	Total
Balance - January 1, 2016	$ 280,902	$ —	$ (705)	$ 3,351	$ (176,221)	$ 107,327
Loss 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
Balance - January 1, 2017	$ 280,902	$ —	$ (437)	$ 3,307	$ (172,987)	$ 110,785
Loss for the period	—	—	—	—	(42,172)	(42,172)
Securities issued on acquisition of ADI, net of issue costs	30,341	1,683	—	—	—	32,024
Securities issued on financing of Transaction, net of issue costs	13,726	833	—	—	—	14,559
Warrants issued on termination of Profit Distribution	—	933	—	(933)	—	—
Shares issued on Offering, net of issue costs	22,955	4,547	—	—	—	27,502
Securities issued for MTV investment	8,003	—	—	—	—	8,003
Stock-based compensation	—	—	—	474	—	474
Shares acquired for equity incentive plan	—	—	(424)	—	—	(424)
Shares released on vesting of equity incentive plan	—	—	619	(525)	(94)	—
Balance - December 31, 2017	**$ 355,927**	**$ 7,996**	**$ (242)**	**$ 2,323**	**$ (215,253)**	**$ 150,751**

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

Sprott Resource Holdings Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
Amounts expressed in thousands of Canadian dollars

		Year Ended	
	Note	**Dec. 31, 2017**	Dec. 31, 2016
Cash flows from operating activities			
Net income (loss) attributable to shareholders		$ (42,172)	$ 3,484
Items not affecting cash			
Net loss (gain) on investments		35,620	(10,397)
Stock-based compensation	*6*	474	482
Bargain purchase gain	*3*	(255)	—
		(6,333)	(6,431)
Purchase of investments	*4*	(49,894)	(14,362)
Sale of investments		6,081	44,857
Changes in non-cash operating working capital			
Trade and other receivables		(595)	(234)
Trade and other payables		(1,170)	1,820
Accrued interest on credit facility		—	(921)
		(45,578)	31,160
Cash provided by (used in) operating activities		(51,911)	24,729
Cash flows from financing activities			
Cash and cash equivalents received on Arrangement, net of issue costs	*3, 6*	26,283	—
Proceeds from shares issued for MTV investment	*4, 6*	8,003	—
Net proceeds from Transaction	*6*	14,559	—
Net proceeds from Offering	*6*	27,502	—
Proceeds from credit facility		—	4,500
Repayments of credit facility		—	(17,200)
Acquisition of treasury stock		(424)	(508)
Cash provided by (used in) financing activities		75,923	(13,208)
Change in cash and cash equivalents		24,012	11,521
Cash and cash equivalents - Beginning of year		12,196	674
Cash and cash equivalents - End of year		**$ 36,208**	$ 12,195
Supplemental Cash Flow Information:			
Interest paid on credit facility[1]		$ —	$ 1,868

[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 Holdings Inc. (formerly Adriana Resources Inc. or "ADI") together with its subsidiaries ("SRHI" or the "Company") was incorporated under the laws of British Columbia and continued under the *Canada Business Corporations Act* ("CBCA"). 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 and initiated its transition from a publicly listed private equity company to a diversified resource holding company in February 2017. On February 1, 2018, the Company determined it had successfully completed this transition, and is currently determining the impact on the financial statements as a result (see Note 17).

On February 9, 2017, Sprott Resource Corp. ("SRC"), at the time a publicly listed private equity company which invested in the natural resource sector, completed a Plan of Arrangement (the "Arrangement" - see Note 3) with ADI, a publicly listed company whose principal holdings were cash and its 40% investment in a joint venture company, Lac Otelnuk Mining Ltd. ("LOM"), an entity established to continue the exploration of the Lac Otelnuk iron ore property in Nunavik, Quebec. Under the Arrangement, all existing SRC common shares were exchanged into ADI common shares at a ratio of 1:3. SRC became a wholly-owned subsidiary of ADI, and ADI was renamed "Sprott Resource Holdings Inc."

SRHI invests in the natural resource sector primarily through SRC. The only assets not held in SRC are its investment in LOM and those assets necessary to administer the (i) public company and (ii) equity incentive plan of the Company (see Note 6d).

The Company is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol "SRHI".

The Company's head office is located at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2600, Toronto, Ontario, Canada, M5J 2J1.

These Financial Statements (as defined below) were approved for issue by the Board of Directors (the "Board") on March 2, 2018.

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").

The Arrangement with ADI is considered a business combination under IFRS with SRC being the acquirer for accounting purposes (Note 3). As such, the comparative information in these Financial Statements is the SRC comparative information, with the results of operations of ADI consolidated from February 9, 2017 (the "Acquisition Date").

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

Certain comparative figures have been reclassified to conform to the method of presentation adopted in the current year.

b. Consolidation

The Financial Statements of the Company include 100% of the accounts of SRHI, SRC, SRH Chile SpA, ADI Mining Ltd. ("ADM") and the Sprott Resource Holdings Inc. 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 SRC, SRH Chile SpA, and ADM 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 SRC, SRH Chile SpA, ADM and the Trust have been conformed where necessary to ensure consistency with the policies adopted by the Company.

c. Business Combinations

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities that consists of inputs, such as assets (including non-current assets), and processes that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs, but can be integrated with the inputs and processes of the Company to create outputs.

Business combinations are accounted for using the acquisition method whereby identifiable assets acquired and liabilities assumed, including contingent liabilities, are recorded at their fair values at the acquisition date. The acquisition date is the date at which the Company obtains control over the acquiree, which is generally the date that consideration is transferred and the Company acquires the assets and assumes the liabilities of the acquiree. The Company considers all relevant facts and circumstances in determining the acquisition date.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets at the acquisition date transferred by the Company, the liabilities, including contingent consideration, incurred and payable by the Company to former owners of the acquiree and the equity interests issued by the Company. The measurement date for equity interests issued by the Company is the acquisition date. Acquisition related costs are expensed as incurred.

d. Warrants

Warrants are classified as equity. Incremental costs directly attributable to the issuance of warrants are recognized as a deduction from warrants. The Company engages in equity financing transactions to obtain the funds necessary to invest in the natural resource sector and for general working capital purposes. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the share purchase warrants are exercisable into additional common shares prior to expiry at a price stipulated by the equity financing agreement. Share purchase warrants that are part of units are measured at fair value on the date of issue using the Black-Scholes option pricing model and included in equity with the common shares that were concurrently issued.

e. 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.

f. 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.

g. 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 and trade and other payables 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.

h. 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.

i. 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.

j. 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.

k. Management Fees and Compensation

SCLP provides management services to the Company, which entitle it to management fees of 0.50% of the Quarterly NAV (as defined in the MSA, see Note 12) of SRHI, less the total compensation paid to management by SRHI for such fiscal quarter. The fee is accrued each quarter.

l. 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 Common Shares at the time of grant. Compensation expense for the Company's Trust is determined based on the value of the Common Shares on the grant date (see Note 6d). 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 or taxable income 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 capital stock.

o. Warrants

Warrants are classified as equity. Incremental costs directly attributable to the issuance of warrants are recognized as a deduction from warrants. The Company engages in equity financing transactions to obtain the funds necessary to invest in the natural resource sector and for general working capital purposes. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the share purchase warrants are exercisable into additional common shares prior to expiry at a price stipulated by the equity financing agreement. Share purchase warrants that are part of units are measured at fair value on the date of issue using the Black-Scholes option pricing model and included in equity with the common shares that were concurrently issued.

p. 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.

q. 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 and warrants 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 and warrants have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options and warrants (they are "in-the-money"). Exercise of in-the-money options and warrants 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, warrants and unvested treasury shares would be anti-dilutive and therefore would have no effect on the determination of diluted loss per share.

r. 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.

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 as at December 31, 2017. 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 SRC, SRH Chile and ADM 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.

As a result of the Arrangement, SRHI announced that it was transitioning from a private equity firm to a diversified holding company focused on holding businesses in the natural resource industry, and that the transition was expected to take less than 12 months. Effective February 1, 2018, SRHI management determined that SRHI had substantially completed its transition to a diversified holding company and that it will no longer rely on the reporting requirements available to it as an investment entity. The date on which SRHI management determined it had completed its transition involved numerous external and internal inputs whereby judgment was required as to the materiality of these inputs and the effective date of these inputs. Please refer to Note 17 for additional details.

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 14.

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.

Warrants

The Company engages in equity financing transactions which may involve issuance of equity units which are comprised of common shares and warrants. Share purchase warrants that are part of units are measured at fair value on the date of issue using the Black-Scholes option pricing model which requires management to make certain estimates in fair valuing the warrants.

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.

Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – *Business Combinations*. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of ADI on February 9, 2017 met the criteria for accounting as a business combination.

The allocation of the purchase price of acquisitions requires estimates as to the fair market value of acquired assets and liabilities. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgments and estimates about future events, including but not limited to estimates of mineral reserves and mineral resources and exploration potential of the assets acquired, future operating costs and capital expenditures, discount rates to determine fair value of assets acquired and future metal prices and long term foreign exchange rates.

Changes to the preliminary measurements of assets and liabilities acquired may be retrospectively adjusted when new information is obtained until the final measurements are determined within one year of the Acquisition Date.

3. Business Combination

The acquisition of ADI was completed on the Acquisition Date. Pursuant to the Arrangement, SRC shareholders received 3.0 ADI shares for each SRC share outstanding at the Acquisition Date. On February 8, 2017, and as a condition of the Arrangement, 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.

On closing of the Arrangement and Transaction (see Note 6b), the Company had 510,488,999 common shares issued and outstanding with approximately 57% of the common shares being held by former shareholders of SRC, 31% by former shareholders of ADI, 8% by Sprott Inc. ("Sprott") and 4% by a fund managed by a subsidiary of Sprott together with Term Oil Inc. (a corporation controlled by A.R. (Rick) Rule IV, a director and chief investment officer of the Company).

As part of the Arrangement, ADI shareholders approved a name change of ADI to "Sprott Resource Holdings Inc." together with the TSX approving the graduation of the Company from the Toronto Venture Exchange to the TSX, and at the same time SRC was delisted from the TSX.

The Company has determined that the acquisition of ADI was a business combination in accordance with IFRS 3, *Business Combinations*, and as such has accounted for it in accordance with this standard using the acquisition method with SRC as the acquirer. Although legally ADI acquired 100% of the common shares of SRC and the ADI legal entity remains the top public entity in the corporate structure, SRC was determined to be the accounting acquirer, through completion of a reverse acquisition, as its shareholders retain majority control post-Arrangement, the composition of the Board reflects a majority of pre-Arrangement SRC Board members, and SRC has retained key management functions of the combined business. The Company incurred and expensed transaction costs of $1.7 million related to the Arrangement in the year ended December 31, 2016 in accordance with IFRS 3, *Business Combinations*. The Company also incurred $0.1 million of share issue costs which were netted against share capital and warrants.

In the accounting for the reverse acquisition, the consideration is determined by reference to the fair value of the number of shares the legal subsidiary, being SRC, would have issued to the legal parent entity, being the Company, to obtain the same ownership interest in the combined entity. As a result, the capital stock consideration is measured at the value of 52,518,079 shares that would have been issued by SRC. Similarly, the consideration in respect of the Warrants is determined by reference to the fair value of the number of Warrants the legal subsidiary, being SRC, would have issued to the legal parent entity, being the Company, to obtain the same ownership interest in the combined entity. As a result, the Warrant consideration is measured at the value of 13,129,520 Warrants that would have been issued by SRC.

As per the Company's accounting polices in accordance with IFRS 3, *Business Combinations*, changes to the preliminary measurements of assets and liabilities acquired are retrospectively adjusted when new information is obtained until the final measurements are determined within one year of the Acquisition Date. During the second quarter of 2017, the Company identified amended fair values of certain assets acquired and liabilities assumed as part of the acquisition of ADI resulting in a bargain purchase gain of $255 thousand compared to the bargain purchase gain of $70 thousand reported at March 31, 2017, a difference of $185 thousand (no adjustments were made during the remainder of 2017). The $185 thousand increase in the bargain purchase gain and the adjustments to the assets acquired and liabilities assumed have been retrospectively recorded as at the Acquisition Date.

Tabular amounts expressed in thousands of Canadian dollars except as noted

The following table summarizes the fair value of the consideration paid and the revised fair values of identified assets acquired and liabilities assumed from ADI with a comparative to the preliminary results presented in the March 31, 2017 Condensed Interim Consolidated Financial Statements.

	Revised based on new information	As reported at March 31, 2017
Consideration		
Issuance of SRC common shares	$ 30,460	$ 30,460
Issuance of Warrants	1,690	1,690
Total consideration	**$ 32,150**	**$ 32,150**
Preliminary fair value of assets acquired:		
Cash and cash equivalents	$ 26,409	$ 26,409
Other current assets	195	443
Investment in LOM	6,517	5,755
	33,121	32,607
Preliminary fair value of liabilities acquired:		
Accounts payable and accrued liabilities	716	387
Net assets acquired	**$ 32,405**	**$ 32,220**
Bargain purchase gain	**$ 255**	**$ 70**

The reverse takeover resulted in a bargain purchase gain of $255 thousand which is included as a reduction of General and Administrative Expenses on the Consolidated Statements of Operations. Had the acquisition of ADI taken place on January 1, 2017, the total pro forma consolidated revenue and earnings for the Company would not be materially different for the year ended December 31, 2017.

4. 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	
	Dec. 31, 2017	Dec. 31, 2016
Mining	$ 91,006	$ 51,040
Energy production and services	15,188	19,361
Agriculture	9,218	30,268
Total investments owned, at fair value	**$ 115,412**	$ 100,669

The Company's investments are solely comprised of equity holdings as at December 31, 2017 and December 31, 2016.

During the year ended December 31, 2017, the Company completed its investment in S.C. Minera Tres Valles ("MTV"), purchasing a 70% equity interest for USD $33.5 million (CAD $41.9 million) of cash and USD $6.4 million (CAD $8.0 million) in common shares of SRHI, for a total investment of USD $39.9 million (CAD $49.9 million). During the year ended December 31, 2016, the Company made follow-on investments of $14.4 million into existing investments.

During the year ended December 31, 2017, the Company sold its investment in Union Agriculture Group ("Union Agriculture") for gross proceeds of USD $4.7 million (CAD $6.1 million). During the year ended December 31, 2016, the Company disposed of six investments for gross proceeds of approximately $44.9 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 associates and/or subsidiaries are as follows:

Name	Type	Principal place of business	Country of Incorporation	Ownership Interest (%)	Voting Rights (%)
LOM	Iron ore exploration company	Canada	Canada	40.00%	40.00%
Beretta Farms Inc. ("Beretta")	A vertically integrated healthy food company	Canada	Canada	49.98%	49.98%
MTV	Producing copper mine	Chile	Chile	70.00%	60.00%

5. Credit Facility

On September 29, 2015, SRC as the borrower entered into an amended and restated credit facility ("Facility") with Sprott Resource Lending Corp. ("SRLC"), a subsidiary of Sprott, 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.

On October 13, 2016, SRC repaid the Facility in full.

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

	Year ended	
(in thousands)	**Dec. 31, 2017**	Dec. 31, 2016
Finance expense	**$ —**	$ 947
Fees	**—**	90
	$ —	$ 1,037

6. 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, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

Tabular amounts expressed in thousands of Canadian dollars except as noted

b) Issued and outstanding

	Common shares (#)		Amount
Balance - December 31, 2015 and December 31, 2016	157,554,238	$	280,902
Shares issued on Arrangement, net of issue costs	290,016,306		30,341
Shares issued on Transaction, net of issue costs	62,918,455		13,726
Shares issued on Offering, net of issue costs	120,000,000		22,955
Shares issued on MTV investment	51,191,847		8,003
Balance - December 31, 2017	**681,680,846**	**$**	**355,927**

On February 9, 2017, the Arrangement closed (see Note 3) resulting in the issuance of 290.0 million common shares and 39.4 million Warrants. Each Warrant is exercisable until February 9, 2022 at an exercise price of $0.333 per common share.

The fair value of the Warrants was determined to be $1.7 million using the following assumptions:

Share price	$0.19
Risk-free rate	0.95%
Expected dividend yield	—%
Expected volatility	42.8%
Warrant life in years	5.0

The Company incurred $0.1 million in costs directly attributable to the issuance of the common shares and Warrants which was allocated between the fair values of the common shares and Warrants.

On February 9, 2017, (i) 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"). The Transaction resulted in the issuance of 62.9 million common shares and 20.0 million Warrants. Each Warrant is exercisable until February 9, 2022 at an exercise price of $0.333 per common share.

The fair value of the Warrants was determined to be $0.8 million using the following assumptions:

Share price	$0.19
Risk-free rate	0.95%
Expected dividend yield	—%
Expected volatility	42.8%
Warrant life in years	5.0

The Company incurred $0.4 million in costs directly attributable to the issuance of the common shares and Warrants which was allocated between the fair values of the common shares and Warrants.

On February 9, 2017, a subsidiary of Sprott received 21,750,000 Warrants as a long-term incentive to replace the profit distribution program that was previously in place and which was terminated upon completion of the Arrangement. Each Warrant is exercisable until February 9, 2022 at an exercise price of $0.333 per common share.

Tabular amounts expressed in thousands of Canadian dollars except as noted

The fair value of the Warrants was determined to be $0.9 million using the following assumptions:

Share price	$0.19
Risk-free rate	0.95%
Expected dividend yield	—%
Expected volatility	42.8%
Warrant life in years	5.0

On April 18, 2017, the Company closed its previously announced "best efforts" marketed offering (the "Offering") resulting in the issuance of 120.0 million common shares and 120.0 million Warrants (together, a unit) at a price of $0.25 per unit. Each Warrant is exercisable until February 9, 2022 at an exercise price of $0.333 per common share.

The fair value of the Warrants was determined to be $4.5 million using the following assumptions:

Share price	$0.195
Risk-free rate	1.00%
Expected dividend yield	—%
Expected volatility	42.3%
Warrant life in years	4.8

The Company incurred $2.5 million in costs directly attributable to the issuance of the common shares and Warrants which was allocated between the fair values of the common shares and Warrants. The Company also incurred other costs related to the Offering of $0.2 million which were expensed in the year ended December 31, 2017.

Common share purchase warrants outstanding are as follows:

	Warrants (#)	Amount
Balance - January 1, 2016 and January 1, 2017	—	$ —
Warrants issued on Arrangement, net of issue costs	39,388,560	1,683
Warrants issued on Transaction, net of issue costs	20,000,000	833
Warrants issued on termination of Profit Distribution	21,750,000	933
Warrants issued on Offering, net of issue costs	120,000,000	4,547
Balance - December 31, 2017	**201,138,560**	**$ 7,996**

All common share purchase warrants have an exercise price of $0.333 per common share and expire on February 9, 2022.

If the daily weighted average trading price of the Company's common shares for any 45 consecutive trading day period is greater than $0.583 per common share, the expiry date of the Warrants may be accelerated by SRHI.

c) Stock options

The number of common shares available under the Company's stock option plan shall not exceed 10% of the issued and outstanding common shares of the Company as at the date of such grant (the "Option Plan"). The Company may grant options to directors, officers, employees or consultants of the Company. The exercise price per share is determined by the Company at the time the option is granted but, in any event, shall not be less than the closing price of the shares on the TSX on the trading day immediately preceding the date of the grant of the option, unless the grant of the option occurs during a blackout period, in which case the exercise price per share shall not be less than the closing price of the shares on the TSX on the second trading day immediately following the expiry of the blackout period. Options granted pursuant to the Option Plan have a ten year term and shall vest and become exercisable by an optionee in three tranches: one third of the number of options vesting each of six, twelve and eighteen months following the date of grants.

Tabular amounts expressed in thousands of Canadian dollars except as noted

On February 9, 2017, the stock option plan of SRC was cancelled as a result of the Arrangement (see Note 3). The Option Plan of the Company remains in place.

The number of stock options outstanding as at December 31, 2017 is 4.3 million (December 31, 2016: 5.3 million) at a weighted average exercise price of $0.19 (December 31, 2016: $0.30). The exercise price ranges from $0.17 per common share to $0.22 per common share with expiry dates from May 2018 to November 2020. The continuity of stock options is as follows:

	Stock options (#)	Weighted average exercise price (per unit)
Balance - December 31, 2016	5,250,000	$ 0.30
Expired	(950,000)	0.81
Balance - December 31, 2017	**4,300,000**	**$ 0.19**

The following table summarizes the stock options outstanding as at December 31, 2017:

Year of Expiry	Number of options outstanding	Weighted average exercise price (per unit)	Weighted average remaining contractual life (years)	Number of exercisable options outstanding	Weighted average exercise price (per unit)
2018	650,000	$ 0.22	0.36	650,000	$ 0.22
2019	650,000	0.17	1.36	650,000	0.17
2020	3,000,000	0.19	2.88	3,000,000	0.19
	4,300,000	$ 0.19	2.27	4,300,000	$ 0.19

d) Treasury stock

On May 21, 2014, SRC adopted an equity incentive plan for its employees and directors which was assigned to the Company effective the date of the Arrangement. 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 2.7 million common shares for the year ended December 31, 2017 (for the year ended December 31, 2016: 2.7 million). During the year ended December 31, 2017, 2.8 million common shares (for the year ended December 31, 2016: 2.2 million) were released on vesting from the equity incentive plan.

	Common shares (#)	Amount
Unvested common shares held by the Trust, December 31, 2016 [1]	1,602,261	$ 437
Acquired for equity incentive plan	2,725,926	424
Released on vesting of equity incentive plan	(2,839,229)	(619)
Unvested common shares held by the Trust, December 31, 2017	**1,488,958**	**$ 242**

[1] Number of common shares is reflected post-Arrangement ratio of 3.0 ADI shares for each SRC share

Tabular amounts expressed in thousands of Canadian dollars except as noted

For the year ended December 31, 2017, the Company recorded stock-based compensation expense of $474 thousand (year ended December 31, 2016: $482 thousand), with a corresponding increase to contributed surplus during the year.

		Year ended		
		Dec. 31, 2017		Dec. 31, 2016
Management fees and compensation	$	235	$	174
General and administrative expenses		239		308
Stock-based compensation	**$**	**474**	$	482

7. Net Gain (Loss) on Investments

		Year ended		
		Dec. 31, 2017		Dec. 31, 2016
Net realized loss on investments	$	(22,654)	$	(201,816)
Reversal of previously recorded unrealized loss on investments[1]		22,654		201,816
Change in unrealized gain (loss) on investments		(32,914)		15,611
Change in unrealized foreign exchange loss on investments		(2,706)		(5,214)
Net gain (loss) on investments	**$**	**(35,620)**	$	10,397

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

8. General and Administrative Expenses

		Year ended		
		Dec. 31, 2017		Dec. 31, 2016 [1]
Professional fees	$	289	$	196
Public company reporting costs		1,253		1,129
Office expenses		448		547
Interest income		(455)		(20)
Bargain purchase gain		(255)		—
	$	**1,280**	$	1,852

[1] Foreign currency translation gain of $86 thousand has been reclassified out of general and administrative expenses as of December 31, 2016.

Included in public company reporting costs are $235 thousand of Director stock-based compensation for the year ended December 31, 2017 (year ended December 31, 2016: $307 thousand).

Included in public company reporting costs are $135 thousand of audit fees for the year ended December 31, 2017 (year ended December 31, 2016: $104 thousand).

As a result of the Arrangement, a bargain purchase gain of $255 thousand was recorded (see Note 3).

Tabular amounts expressed in thousands of Canadian dollars except as noted

9. Transaction Costs

	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
Commissions and professional fees related to investments	$ 1,048	$ 278
Professional fees related to the reverse takeover of the Company by SRC	458	1,592
	$ 1,506	$ 1,870

10. 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, 2016: 26.5%) to income (loss) before income taxes as shown in the following table:

	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
Income (loss) before income tax	$ (42,172)	$ 3,484
Combined statutory federal and provincial income tax rate	26.5%	26.5%
Combined income taxes at statutory tax rate	$ (11,176)	$ 923
Non-deductible and non-taxable items	(57)	(6)
Non-deductible (non-taxable) portion of capital losses	3,001	22
Non-deductible portion of unrealized (gains) losses on investments	1,718	(1,384)
Derecognition of deferred tax asset	6,514	445
Tax expense as per consolidated statement of operations	**$ —**	**$ —**

There were no gross movements in the net deferred income tax account for the year ended December 31, 2017, the balance remains nil.

	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
Balance - beginning of year	$ —	$ —
Statement of Operations charge	—	—
Balance - end of year	**$ —**	**$ —**

	As at Dec. 31, 2017	As at Dec. 31, 2016
Non-capital losses carried forward	$ 61,011	$ 11,831

11. 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 warrants, 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 and warrants. 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 and warrants. 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, 2017**		Dec. 31, 2016
Net income (loss) and comprehensive income (loss) attributable to shareholders [1]	$	(42,172)	$	3,484
Weighted average number of shares - basic [2]		582,649		287,600
Weighted average number of shares - fully diluted [2]		582,649		290,016
Basic and fully diluted income (loss) per share [2]	$	(0.07)	$	0.01

[1] *Amounts for 2016 are of SRC, without giving effect to the Arrangement*

[2] *Figures for 2016 are of SRC, and have been adjusted to reflect the post-Arrangement ratio of 3.0 ADI shares for each SRC share*

12. Commitment

Management Services Agreement ("MSA")

The Company invests and operates in the natural resource sector through SRC and ADM. Substantially all of the investment holdings of SRHI are held by SRC. The only assets not held in SRC are its investment in LOM (held by ADM) and those assets necessary to administer the (i) public company and (ii) equity incentive plan of the Company (see Note 6d).

In connection with the Arrangement (as defined in Note 1), an MSA was entered into between SRHI and Sprott Consulting Limited Partnership ("SCLP") which is directly and indirectly wholly-owned by Sprott, replacing the old MSA (the "Old MSA") between SRC and SCLP.

Under the MSA, management for SRHI are provided and have the power and authority to transact the business of SRHI and to deal with and in SRHI's assets for the use and benefit of SRHI, except as limited by any direction of the Board, and subject to certain limits on authority established from time to time by the Board.

Within the terms and conditions established by the Company, the management provided under the MSA will manage SRHI's investment activities and assets, and administer the day-to-day operations of SRHI.

13. Related Party Transactions

a) Purchases of Services

The Company entered into the following transactions with related parties during the year ended December 31, 2017 and year ended December 31, 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.

(i) Management Fees and Compensation

Management fees and employment compensation pursuant to the Management Services Agreement for the year ended December 31, 2017 were $2.9 million, (year ended December 31, 2016: $2.2 million). The employment compensation portion was paid directly to employees and consultants of SRHI provided by SCLP and the remainder was paid and payable to SCLP, an entity with directors and officers in common. As at December 31, 2017, there was $0.3 million (December 31, 2016: $0.2 million) payable to SCLP for management fees calculated pursuant to the MSA. From time-to-time, the Company pays compensation directly to employees and consultants of SRHI for which it is reimbursed by Sprott.

Tabular amounts expressed in thousands of Canadian dollars except as noted

(ii) Equity Issuance Costs

Commissions paid to Sprott Capital Partners ("SCP") and Sprott Global Resource Investments Ltd. ("Sprott Global") in connection with the Transaction and Offering for the year ended December 31, 2017 were $2.1 million (year ended December 31, 2016: $nil). SCP and Sprott Global are affiliates of SCLP.

b) Key Management Compensation

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

	Year ended	
	Dec. 31, 2017	Dec. 31, 2016
Compensation paid by and on behalf of SRHI for executive management services provided to the Company (including stock-based compensation)	$ 1,190	$ 1,002
Directors fees and stock-based compensation	553	667
	$ 1,743	$ 1,669

14. Fair Value Estimation

All of the Company's investments are carried at fair value. SRHI includes all investments in public securities in Level 1 of the fair value hierarchy (see Note 2). SRHI 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 on 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 four mining companies, one of which is in the exploration stage, two that are in the producing stage and another that is in care and maintenance. The agriculture industry group consists of one agriculture-related company based in Canada with 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, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments - mining	$ 34,435	$ —	$ 56,571	$ 91,006
Investments - agriculture	—	—	9,218	9,218
Investments - energy production and services	13,769	—	1,419	15,188
	$ 48,204	$ —	$ 67,208	**$ 115,412**

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**

Tabular amounts expressed in thousands of Canadian dollars except as noted

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. There have been no transfers between levels during the year ended December 31, 2017 and December 31, 2016.

The following presents the movement in Level 3 instruments for the year ended December 31, 2017 and for the year ended December 31, 2016:

	Dec. 31, 2017	Dec. 31, 2016
Opening balance	$ 35,507	$ 71,084
Investments acquired on acquisition of ADI	6,517	—
Investment in MTV	50,054	
Transfer of investment to Level 1	—	(8,602)
Unrealized losses in the year	(24,870)	(26,975)
Ending balance	**$ 67,208**	$ 35,507

Valuation Methodologies

The Company's management team is 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.

The Company determines the fair values of its investments categorized in Level 3 using adjusted book value, earnings and revenue multiple methodologies, reference to recent transaction prices, public company comparables or a combination thereof. At least annually, each investment classified as a Level 3 investment is valued by an independent third-party professionally accredited valuator unless (i) there is sufficient external evidence, such as a recent third-party transaction, that would provide meaningful and supportable evidence to conclude on fair value or (ii) it is both uneconomical to perform and the range of fair values for the investment would not result in a material difference from any value within the range. 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 as previously discussed).

Where a recent investment has been made, either by the Company or by a third party in one of SRHI'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 may be used at any time if they are believed to provide a more accurate assessment of the fair value of the investment. The indicators that the price of a recent investment may no longer be appropriate include (but are not necessarily limited to) factors such as:

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

If active business operations in an SRHI investment have not yet generated meaningful positive cash flows, after considering the background of the underlying investment, an adjusted book value approach is typically utilized adjusting the reported book value of those assets and liabilities required in operations to their respective fair values, subject to consideration of changes in market conditions and company specific factors.

Quantitative information about fair value measurements as at December 31, 2017 using significant unobservable inputs (Level 3) is as follows:

Description	Valuation technique(s)	Significant unobservable input(s)	Range of significant unobservable inputs
Investments - mining			
LOM	Adjusted net assets	Expected rate of return applied to mineral properties	6% - 12%
MTV	Recent transaction price	not applicable	not applicable
Investments - energy production and services			
R.I.I. North America Inc.	Approved equity raise price	not applicable	not applicable
Investments - agriculture			
Beretta	Adjusted net assets	Biological asset fair value	Midpoint of third-party Canadian index for commodity beef[1]

[1] *Biological assets at Beretta 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 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, (ii) mining sectors and (iii) agriculture sectors. The sensitivity of these investments' fair values is highly correlated to numerous unobservable inputs, the interrelationships of which are difficult to determine.

15. 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.

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. copper, metallurgical coal, oil, natural gas liquids, natural gas, 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 copper, metallurgical and thermal coal, iron ore, 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.

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.

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, 2017, approximately $50.1 million or 32.8% (December 31, 2016: $16.9 million or 14.9%) of total assets were invested in proprietary investments priced in USD, and approximately $14.7 million or 9.6% of total assets was held in USD cash (December 31, 2016: $nil). As at December 31, 2017, 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 loss for the year ended December 31, 2017 would have amounted to approximately $3.2 million (for the year ended December 31, 2016: $0.8 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 $11.5 million.

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, 2017:

(in thousands)	Carrying Amount	Contractual Amount	Less than one year	One to two years	Greater than two years
Financial liabilities					
Trade and other payables	$ 2,033	$ 2,033	$ 2,033	$ —	$ —

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, 2017	Dec. 31, 2016
Mining	60.4%	46.1%
Agriculture	6.1%	27.3%
Energy production and services	10.1%	17.5%
Cash, trade and other receivables less total liabilities	23.4%	9.2%
Total equity attributable to shareholders of the Company	**100%**	100%

One mining investment represents approximately 55% of the Mining segment above and approximately 33% of total equity attributable to shareholders of the Company.

16. 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.

17. Subsequent Event

Transition to a Diversified Holding Company

On February 1, 2018, the Company completed its previously announced transition to a diversified holding company. As a result, the Company will no longer rely on the reporting requirements applicable to it as an investment entity under IFRS 10: *Consolidated Financial Statements*.

Although the business of the Company has transitioned to that of a diversified holding company on February 1, 2018, the Company continues to assess the implications to its financial reporting. Final considerations are not yet complete due to the timing of the transition's completion, however the Company is currently analyzing the financial impact of the application.

Effective February 1, 2018, the Company expects that it will begin to consolidate the financial statements of MTV which will be considered a controlled entity, resulting in the introduction of MTV's assets, liabilities, and a non-controlling interest to the balance sheet of the Company. The Company is still evaluating whether certain other investments will meet the definition of an associate and be accounted for under the equity method, or be classified as financial assets at fair value through either profit and loss or other comprehensive income.

Preliminary assessments for the method of reporting the operations of the Company indicate a substantial change due to MTV's classification as a controlled entity which will be consolidated prospectively from February 1, 2018. All income and expenses of MTV will be reported on the Company's statements of operations together with the non-controlling interest's share of operations. The impacts to the statements of operations resulting from the accounting treatment of the Company's other investments remains under review.

The anticipated financial reporting changes to the Company will be material, as will be the related metrics of SRHI, and these changes will be applied on a prospective basis.

SRHI management cautions readers that this assessment is preliminary and subject to change.

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

	2017	2016
Investment gain		
Net gain on investments	$ 12,325	$ 7,537
	12,325	7,537
Expenses		
General and administrative expenses	538	535
Management fees and compensation	748	576
Transaction costs	379	1,441
Finance expense	—	25
Foreign currency translation gain	(74)	(84)
	1,591	2,493
Net income and comprehensive income attributable to shareholders	**$ 10,734**	$ 5,044
Basic and diluted income per share	**$ 0.02**	$ 0.02
Weighted average shares outstanding during the period		
Basic	**678,664,983**	286,963,943
Fully diluted	**681,124,413**	290,016,306

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Stock Information

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

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

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