

The logo for Sprott Asset Management features the word "Sprott" in a bold, sans-serif font on the left, followed by a stylized, grey, curved graphic element that resembles a swoosh or a stylized letter 'S'. To the right of this graphic is the word "Asset Management" in a smaller, bold, sans-serif font. The entire logo is centered at the top of the page.

**Sprott Asset Management**

**SIMPLIFIED PROSPECTUS**

**May 11, 2011**

*Offering Series A, Series F and Series I Units (unless otherwise indicated)*

**SPROTT CANADIAN EQUITY FUND**

**SPROTT DIVERSIFIED YIELD FUND** *(Series T Units also available)*

**SPROTT GOLD AND PRECIOUS MINERALS FUND**

**SPROTT ENERGY FUND**

**SPROTT GROWTH FUND**

**SPROTT SHORT-TERM BOND FUND**

**SPROTT SMALL CAP EQUITY FUND**

**SPROTT ALL CAP FUND**

**SPROTT TACTICAL BALANCED FUND** *(Series T and Series D Units also available)*

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

The Funds and the securities of the Funds under this Simplified Prospectus are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance upon exemptions from registrations.

## **TABLE OF CONTENTS**

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INTRODUCTION .....	1
WHAT IS A MUTUAL FUND AND WHAT ARE THE RISKS OF INVESTING IN A MUTUAL FUND?.....	1
ORGANIZATION AND MANAGEMENT OF THE FUNDS .....	6
PURCHASES, SWITCHES, RECLASSIFICATIONS AND REDEMPTIONS .....	7
OPTIONAL SERVICES .....	11
FEES AND EXPENSES .....	12
IMPACT OF SALES CHARGES .....	15
DEALER COMPENSATION .....	16
DEALER COMPENSATION FROM MANAGEMENT FEES .....	18
INCOME TAX CONSIDERATIONS FOR INVESTORS .....	18
WHAT ARE YOUR LEGAL RIGHTS?.....	19
ADDITIONAL INFORMATION.....	19
SPECIFIC INFORMATION ABOUT THE FUNDS.....	21
SPROTT CANADIAN EQUITY FUND .....	21
SPROTT DIVERSIFIED YIELD FUND .....	24
SPROTT GOLD AND PRECIOUS MINERALS FUND .....	28
SPROTT ENERGY FUND .....	31
SPROTT GROWTH FUND.....	34
SPROTT SHORT-TERM BOND FUND .....	37
SPROTT SMALL CAP EQUITY FUND .....	40
SPROTT ALL CAP FUND .....	43
SPROTT TACTICAL BALANCED FUND .....	47

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## INTRODUCTION

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In this document, “we”, “us”, “our” or “the Manager” refers to Sprott Asset Management LP, the manager and portfolio adviser to Sprott Canadian Equity Fund, Sprott Diversified Yield Fund, Sprott Gold and Precious Minerals Fund, Sprott Energy Fund, Sprott Growth Fund, Sprott Short-Term Bond Fund, Sprott Small Cap Equity Fund, Sprott All Cap Fund and Sprott Tactical Balanced Fund (collectively, the “Funds” and each, a “Fund”). “Sprott mutual funds” refers to all of our mutual funds, which may be offered under this simplified prospectus or other prospectuses, and includes the Funds. A reference in this document to “you” refers to everyone who invests in the Funds.

Each of the Funds offer three series of units: Series A, Series F and Series I unless otherwise indicated. Series A units are available to all investors. Series F units are designed for investors who participate in fee-based programs. Series I units are special purpose units generally available only to institutional investors or as determined by the Manager on a case-by-case basis. Generally, an investor in Series I units negotiates a separate fee that will be paid directly to the Manager by the investor or by the Fund. Each of Sprott Diversified Yield Fund and Sprott Tactical Balanced Fund also offer Series T units. Series T units are intended for investors who seek monthly distributions at a target annual distribution rate consisting of net income, capital gains and/or returns of capital. In addition, Sprott Tactical Balanced Fund offers Series D units. Series D units are available exclusively to members of the member societies that make up the Federation of National Specialty Societies of Canada (“FNSSC”), and any other persons as determined in accordance with the referral agreement between us and FNSSC.

This document contains selected important information to help you make an informed investment decision and to help you understand your rights as an investor. This document contains information about the Funds and the risks of investing in mutual funds generally, as well as the names of the firms responsible for the management of the Funds. This document is divided into two parts:

- pages 1 to 20 contains general information applicable to the Funds; and
- pages 21 to 46 contain specific information about the Funds described in this document.

Additional information about the Funds is available in the Annual Information Form, the Funds’ most recently filed annual financial statements, any interim financial statements of the Funds filed after those annual financial statements, the most recently filed fund facts (once available), the most recently filed annual management report of fund performance (MRFP) and any interim MRFP filed after that annual MRFP. These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as part of this document. You may obtain copies of these documents upon request, and at no charge, by calling toll free at 1-(866)-299-9906, or from your investment adviser directly, or via email at [invest@sprott.com](mailto:invest@sprott.com), or from our website at [www.sprott.com](http://www.sprott.com).

These documents and other information about the Funds are also available on the Internet site of SEDAR (the System for Electronic Document Analysis and Retrieval) at [www.sedar.com](http://www.sedar.com).

### **WHAT IS A MUTUAL FUND AND WHAT ARE THE RISKS OF INVESTING IN A MUTUAL FUND?**

#### **What is a Mutual Fund?**

A mutual fund is an investment vehicle that pools money of many individuals who have similar investment goals, and invests it in a variety of securities in an effort to achieve a specific investment objective over time. Individuals who contribute money become unitholders of the mutual fund. Where a mutual fund issues more than one series, unitholders share in the mutual fund’s income, expenses and the gains and losses allocated to the unitholders’ series generally in proportion to the units of that series they own. The value of an investment in a mutual fund is realized upon redeeming units held. Mutual funds are managed by professional money managers who invest on behalf of the whole group.

Mutual funds are available in many varieties that are designed to meet the differing needs of investors. A fund may own different types of investments such as stocks, bonds, cash, derivatives or any combination of these investments, depending upon its investment objectives.

### **What are the Risks of Investing in a Mutual Fund?**

Every individual has a different tolerance for risk. Some investors are more conservative than others. It is important to evaluate your personal tolerance for risk, as well as the amount of risk suitable for your financial goals and time horizon when making investment decisions. The risks associated with investing in a mutual fund depend on the assets and securities in which the mutual fund invests, based upon the mutual fund's particular objectives.

Investors should take into account that the value of these investments will change from day to day, reflecting changes in interest rates, exchange rates, economic conditions, market, and company news. As a result, the value of a mutual fund's units may go up or down, and the value of your investment in a mutual fund may be worth more or less upon redemption than when the units were first purchased.

The Manager does not guarantee that the full amount of your original investment in a Fund will be returned to you. Unlike bank accounts or GICs, mutual funds are not insured under the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, a mutual fund may suspend redemptions. Please see "Redemptions for all Series of Units" on page 10 for more information.

### **General Investment Risks**

Listed below are some risks that can affect the value of an investment in a mutual fund. Since Sprott Tactical Balanced Fund invests in other mutual funds (the "underlying funds"), the risks of investing in this Fund include both the risks of investing in the Fund and the risks of investing in the underlying funds, which the Fund takes on in proportion to its investment in the underlying funds.

To find out which of these risks apply to an investment in each of the Funds, please refer to "What are the Risks of Investing in the Fund?" under each individual fund profile starting on page 21.

### ***Capital depletion risk***

Series T units are designed to provide a cash flow to investors based on a target annual distribution rate. Where this cash flow exceeds the net income and net realized capital gains attributable to that series, it will include a return of capital. A return of capital means a portion of the cash flow given back to you is generally money that was invested in a Fund, as opposed to the returns generated by the investment. This distribution to you should not be confused with "yield" or "income". Returns of capital that are not reinvested will reduce the total net asset value of the particular series of a Fund. As well, returns of capital reduce the total assets of a Fund available for investment, which may reduce the ability of the Fund to generate future income. You should not draw any conclusions about a Fund's performance from the amount of this distribution.

### ***Commodity risk***

Mutual funds that invest in commodities such as gold, silver and other precious minerals will be affected by changes in commodity prices. Commodity prices tend to be cyclical and can move significantly in short periods of time, including as a result of supply and demand, speculation, international monetary and political factors, government and central bank activity and changes in interest rates and currency values. In addition, new discoveries or changes in government regulations can affect the price of commodities.

Certain of the Funds may invest in gold and/or silver bullion or may invest in underlying funds the investments of which include gold and/or silver bullion. Direct purchases of bullion may generate higher transaction and custody costs than other types of investments, which may impact the performance of a mutual fund. Bullion does not generate an income stream if held in an allocated, segregated account and not leased. Since these Funds will not lease their bullion, if any, the Funds will not receive any income. The Funds will only earn money on their investment in bullion to the extent that they sell the bullion at a gain.

***Concentration risk***

Some mutual funds concentrate their investment holdings in specialized industries, market sectors, asset classes or in a limited number of issuers. Investments in these mutual funds involve greater risk and volatility than broadly based investment portfolios since the performance of one particular industry, market, asset class or issuer could significantly and adversely affect the overall performance of the entire mutual fund.

***Credit risk***

Mutual funds that invest in fixed-income securities are subject to credit risk. Issuers of debt securities promise to pay interest and repay a specified amount on the maturity date. Credit risk is the risk that such issuers will not pay that obligation. Credit risk is lowest among issuers that have good credit ratings from recognized credit rating agencies. The riskiest fixed-income securities are those with a low credit rating or no credit rating at all. These securities usually offer higher interest rates to compensate for the increased risk.

***Currency risk***

The net asset value of the Funds is calculated in Canadian dollars. Most foreign investments are purchased in currencies other than the Canadian dollar. As a result, the value of those investments will be affected by the value of the Canadian dollar relative to the value of the foreign currency. The value of foreign denominated investments within a Fund may be worth more or less depending on changes in foreign exchange rates.

***Derivatives risk***

A derivative is a contract between two parties whose value is “derived” from the value of an underlying asset, such as a stock, or a market index. Mutual funds may use derivatives to limit potential losses associated with currencies, stock markets and interest rates. This process is called hedging. Mutual funds may also use derivatives for non-hedging purposes – to reduce transaction costs, achieve greater liquidity, create effective exposure to international financial markets or increase speed and flexibility in making portfolio changes.

Although derivatives may be used by mutual funds to seek to minimize risk, derivatives still have risks associated with their use and do not guarantee a gain or loss. Some examples of risks associated with the use of derivatives are:

- hedging strategies may not be effective
- a market may not exist when the fund wants to close out its position in a derivative
- the fund may experience a loss if the other party to a derivative is unable to fulfill its obligations
- the derivative may not perform the way the manager expects it to perform, causing the fund to lose value
- costs of the derivative contracts with counterparties could rise

***Exchange traded funds risk***

The Funds may invest in exchange traded funds (“ETFs”) that seek to provide returns similar to an underlying benchmark such as particular market indices or industry sector indices. These ETFs may not achieve the same return as their benchmark indices due to differences in the actual weightings of securities held in the ETF versus the weightings in the relevant index, and due to the operating and administrative expenses of the ETF. As well, the Funds have obtained relief from the Canadian securities regulators so that they may invest in certain exchange traded funds managed by BetaPro Management Inc. (“BetaPro ETFs”). The BetaPro ETFs utilize leverage in an attempt to magnify returns by either a multiple or an inverse multiple of that benchmark. Units of the BetaPro ETFs are highly speculative, involve a high degree of risk and are subject to increased volatility as they seek to achieve a multiple or inverse multiple of a benchmark.

***Foreign investment risk***

Mutual funds that invest in securities of foreign issuers will be affected by world economic factors. Obtaining complete information about potential investments from foreign markets may also be of greater difficulty. Foreign issuers may not follow certain standards that are applicable in North America, such as accounting, auditing, financial reporting and other disclosure requirements. Political climates may differ, affecting stability and volatility in foreign

markets. As a result, mutual fund prices may fluctuate to a greater degree by investing in foreign equities than if the funds limited their investments to Canadian securities.

***Inflation risk***

Mutual funds are investment vehicles which generally have a long-term horizon. Many investors use them for retirement purposes. As a result of the long-term outlook for a mutual fund investment, the effects of inflation could significantly erode the value of an investor's money over time. Managing inflation risks involves a diversified mix of investments with emphasis on equity securities, which have historically out-performed all other types of investments over the long-term.

***Interest rate risk***

Interest rates affect the value of fixed-income securities, including bonds, mortgages, treasury bills and commercial paper. These securities will generally rise if interest rates fall and fall if interest rates rise. Therefore, values of mutual funds which invest in fixed-income securities will change with fluctuating interest rates. Changes in interest rates may also affect the value of equity securities as investors shift between investment vehicles.

***Liquidity risk***

Liquidity is how quickly a security can be sold at a fair price and converted to cash. Mutual fund values will be affected by those securities that are difficult to sell because they may be small companies with limited outstanding shares or they may be unknown to investors and are not traded regularly. Difficulty in selling securities may result in a loss or a costly delay.

***Market risk***

The value of equity securities will change based on specific company developments and stock market conditions. Market value also varies with changes in the general economic and financial conditions in countries where investments are made.

***Regulatory risk***

Regulatory risk is the potential revenue impact on a company due to laws, regulation and policies of regulatory agencies. Governmental or regulatory permits and approvals may be required to proceed with planned projects. Any delay or failure in achieving the required permits or approvals would reduce the company's growth prospects.

***Securities lending, repurchase and reverse repurchase transactions risk***

Mutual funds may enter into securities lending, repurchase or reverse repurchase transactions as permitted by securities legislation. Securities lending is an agreement whereby a mutual fund lends securities through an authorized agent for a fee in exchange for collateral, and can demand the return of the securities at any time. Under a repurchase transaction, a mutual fund agrees to sell securities for cash while, at the same time, assuming an obligation to repurchase the same securities for cash (usually at a lower price) at a later date. A reverse repurchase transaction is a transaction pursuant to which a mutual fund buys securities for cash while, at the same time, agreeing to resell the same securities for cash (usually at a higher price) at a later date.

The risks associated with securities lending, repurchase or reverse repurchase transactions arise when a counterparty defaults under the agreement evidencing the transaction and the mutual fund is forced to make a claim in order to recover its investment. In a securities lending or a repurchase transaction, a mutual fund could incur a loss if the value of the securities loaned or sold has increased in value relative to the value of the collateral held by the mutual fund. In the case of a reverse repurchase transaction, a mutual fund could incur a loss if the value of the securities purchased by the mutual fund decreases in value relative to the value of the collateral held by the mutual fund.

To limit these risks:

- (i) a mutual fund must hold collateral equal to no less than 102% of the value of the securities sold, loaned or cash paid (where the amount of collateral is adjusted each trading day to make sure that the value of the collateral does not go below the 102% minimum level);
- (ii) the collateral to be held may consist of cash, qualified securities or securities that can be immediately converted into securities sold or loaned; and

- (iii) repurchase transactions and securities lending agreements are limited to 50% of a fund's assets. Collateral held for loaned securities and cash paid for received securities are not included when making this calculation.

***Series risk***

The Funds are available in more than one series of units. Each series has its own fees and expenses which the Funds track separately. If a Fund cannot pay the expenses of one series using that series' proportionate share of the assets of a Fund, the Fund will have to pay those expenses out of the other series' proportionate share of the assets, which would lower the investment return of those other series.

***Short selling risk***

A short sale by a Fund involves borrowing securities from a lender which are then sold in the open market. At a future date, the securities are repurchased by the Fund and returned to the lender. While the securities are borrowed, the proceeds from the sale are deposited with the lender and the Fund pays interest to the lender. If the value of the securities declines between the time that the Fund borrows the securities and the time it repurchases and returns the securities to the lender, the Fund makes a profit on the difference (less any interest the Fund is required to pay the lender). Short selling involves risk. There is no assurance that securities will decline in value during the period of the short sale and make a profit for a Fund. Securities sold short may instead appreciate in value creating a loss for a Fund. A Fund may experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender may also recall borrowed securities at any time. The lender from whom a Fund has borrowed securities may go bankrupt and a Fund may lose the collateral it has deposited with the lender. The Funds will adhere to controls and limits that are intended to offset these risks by short selling only liquid securities and by limiting the amount of exposure for short sales. The Funds will also deposit collateral only with Canadian lenders that are regulated financial institutions or regulated dealers and only up to certain limits.

***Small capitalization natural resource company risk***

A portion of a Fund's portfolio may be invested in securities of small capitalization natural resource companies. The business models for these companies involve significant risks including the entire loss of the investment in the company. These companies can also provide significant returns if their exploration properties hold reserves which can be brought into production. Small capitalization natural resource companies typically have limited production, markets and financial resources. They are less able to sustain adverse competitive and market changes. Other risk factors include changes in resource prices, environmental regulations and possible claims on their resource properties.

***Small company risk***

Small companies can be riskier investments than larger companies. For one thing, they are often newer and may not have a track record, extensive financial resources or a well-established market for their securities. They generally do not have as many shares trading in the market, so it could be difficult for a Fund to buy or sell small company stock when it needs to. All of this means their prices can change significantly in a short period of time.

***Substantial unitholder risk***

A single investor (including a Sprott mutual fund) may buy or sell large amounts of units of a Fund. As a result, a Fund may have to alter its portfolio significantly to accommodate large fluctuations in assets.

***Tax risk***

There can be no assurance that the tax laws applicable to the Funds, including the treatment of certain gains and losses as capital gains and losses, will not be changed in a manner which could adversely affect the Funds or the Funds' unitholders. Furthermore, there can be no assurance that the Canada Revenue Agency will agree with the Manager's characterization of the gains and losses of the Funds as capital gains and losses or ordinary income and losses in specific circumstances. If any transactions of the Funds are reported by it on capital account but are subsequently determined by the Canada Revenue Agency to be on income account, there may be an increase in the net income of the Fund for tax purposes, and in the taxable distributions made by the Fund to unitholders, with the result that unitholders could be reassessed by the Canada Revenue Agency to increase their taxable income.

## ORGANIZATION AND MANAGEMENT OF THE FUNDS

<p><b>Manager</b>  Sprott Asset Management LP  Royal Bank Plaza, South Tower  Suite 2700, P.O. Box 27  Toronto, Ontario M5J 2J1</p> <p>Tel: 416-943-6707  Fax: 416-943-6497  Email: invest@sprott.com  Website: www.sprott.com</p> <p>Toll Free: 1-866-299-9906</p>	<p>Sprott Asset Management LP acts as the manager to the Funds and is responsible for the day-to-day operations of the Funds including accounting and administration for units of the Funds.</p>
<p><b>Portfolio Adviser</b>  Sprott Asset Management LP  Toronto, Ontario</p>	<p>The Portfolio Adviser conducts research, selects, purchases, sells, and makes all investment decisions with regard to the portfolio securities of the Funds.</p>
<p><b>Trustee</b>  RBC Dexia Investor Services Trust  Toronto, Ontario</p>	<p>The Funds are organized as trusts. The Trustee holds title to the securities owned by the Funds on behalf of unitholders. The Trustee and Manager have exclusive authority over the assets and affairs of the Funds and have a fiduciary responsibility to act in the best interest of unitholders.</p>
<p><b>Custodian</b>  RBC Dexia Investor Services Trust  Toronto, Ontario</p>	<p>The Custodian holds the Funds' cash and securities on behalf of the Funds and is responsible for ensuring that they are safe and secure. In some cases, for example securities lending, some of the assets of the Funds are not held by the Custodian. The Custodian is only responsible for the Funds' assets that are directly held by it, its affiliates or appointed subcustodians.</p>
<p><b>Recordkeeper</b>  RBC Dexia Investor Services Trust  Toronto, Ontario</p>	<p>The Recordkeeper keeps a register of the owners of units for the Funds, processes purchase and redemption orders, issues investor account statements and issues annual tax reporting information.</p>
<p><b>Auditors</b>  Ernst &amp; Young LL.P.  Toronto, Ontario</p>	<p>The Auditors annually audit the financial statements of the Funds to determine whether they fairly present, in all material respects, the Funds' financial position, results of operations and changes in net assets in accordance with Canadian generally accepted accounting principles.</p> <p>If a decision is ever made to change auditors, you will not be asked to approve this change; however, we will provide you at least 60 days written notice before the effective date of the change in auditors.</p>
<p><b>Independent Review Committee ("IRC")</b></p>	<p>The mandate of the IRC is to review, and provide input on, our written policies and procedures that deal with conflict of interest matters in respect of the Sprott mutual funds and to review and, in some cases, approve conflict of interest matters. Each member of the IRC is independent of us and any party related to us. The IRC will prepare, at least annually, a report of its activities for investors. This report</p>

	<p>will be available on our website at <a href="http://www.sprott.com">www.sprott.com</a> or you may request a copy, at no cost to you, by contacting us at <a href="mailto:invest@sprott.com">invest@sprott.com</a>.</p> <p>Additional information about the IRC, including the names of the members, is available in the Annual Information Form.</p>
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## **PURCHASES, SWITCHES, RECLASSIFICATIONS AND REDEMPTIONS**

Each Fund is permitted to issue an unlimited number of series of units and may issue an unlimited number of units of each series. Each of the Funds have created Series A, Series F and Series I units. Sprott Diversified Yield Fund and Sprott Tactical Balanced Fund have also created Series T units. In addition, Sprott Tactical Balanced Fund has created Series D units.

Series A units: Available to all investors.

Series T units: Available to all investors. Series T units are designed to provide tax-efficient cash flow to investors by making monthly distributions of cash. Series T units will make monthly distributions of an amount comprising a return of capital, net income and/or capital gains on the last business day of each month. The composition of the monthly distributions as among net income, returns of capital and/or capital gains may vary from month to month. The fixed monthly distribution amount will be reset at the beginning of each calendar year to provide an approximately 6% yield per annum based on the net asset value per Series T unit as at December 31 of the prior year. We reserve the right to adjust the distribution amount if deemed appropriate. There can be no assurance that the series will make any distributions in any particular month or months. Additional distributions of net income and net realized capital gains, if any are required, will be made annually in December. For more details, see “Sprott Diversified Yield Fund – Distribution Policy” on page 26 and “Sprott Tactical Balanced Fund - Distribution Policy” on page 49.

Series F units: Available to investors who participate in fee-based programs through their dealer and whose dealer has signed a Series F Agreement with us, investors for whom we do not incur distribution costs, or individual investors approved by us. You may only buy Series F units if we and your broker, dealer or adviser approve the order first.

Series I units: Available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager.

Series D units: Available to members of the member societies that make up the FNSSC, and any other persons as determined in accordance with the referral agreement between us and FNSSC (“Members”). We may redeem an investor’s units if the investor is no longer a Member, or if we become aware that the investor is not a Member. Please see “Redemptions for all Series of Units” on page 10 for more details.

Although the money which you and other investors pay to purchase units of any series is tracked on a series-by-series basis in the applicable Fund’s administrative records, the assets are combined in a single pool to create one portfolio for investment purposes.

The Funds are available in each of the provinces and territories of Canada. You may purchase, switch, reclassify or redeem units of a Fund by contacting your investment adviser.

The minimum initial investment in Series A, Series F, Series T or Series D units of any of the Funds is \$1,000. The minimum subsequent investment in Series A, Series F, Series T or Series D units of any Fund is \$100. These minimum investment amounts may be adjusted or waived in the absolute discretion of the Manager.

You must include payment with your purchase order. Purchase orders which are deposited with a dealer will be forwarded by the dealer to RBC Dexia Investor Services Trust on the same day on which the purchase order is

received, or if received after 4:00 p.m. (Eastern time), on the next business day. The dealer must send an investor's purchase order by courier, priority post or telecommunications facility *without charge to the investor*.

We have the right to accept or reject any purchase order, but must make a decision to reject an order within one business day after receiving the order. The payment received with that order would be refunded immediately.

No certificates are issued for units purchased, but an investor receives, following each purchase of units, a written statement indicating all relevant details of the purchase transaction, including the dollar amount of the purchase order, the net asset value per unit applied to the purchase order and the number of units purchased.

The purchase, switch, reclassification or redemption price of a unit of a Fund is the net asset value per unit of a series prevailing at the time of purchase, switch, reclassification or redemption. The net asset value per unit for each series of units of a Fund is based on the net asset value of the series' proportionate share of the net assets of the Fund less the proportionate share of common expenses allocated to that series and less any series expenses attributable to that series, divided by the total number of units of that series outstanding. The price for a Fund unit is calculated at the end of each business day.

All requests for any purchases, switches, reclassifications or redemptions of the applicable series of units in a Fund must be received by RBC Dexia Investor Services Trust prior to 4:00 p.m. (Eastern time) on a regular business day in Toronto in order to receive that business day's unit price for that series, which is calculated as the net asset value as of close of business on that day. If your request is received after 4:00 p.m. (Eastern time) or on a day that is not a regular business day in Toronto, the unit price applied to your request will be determined at the close of business on the following regular business day in Toronto. You and your adviser are responsible for the completeness and accuracy of your order. Orders will only be processed if complete.

Your dealer may seek reimbursement from you for any of its losses caused by you in connection with a failed settlement of either a purchase or redemption of units of a Fund where such dealer has the contractual right to do so.

The Funds are valued in Canadian dollars. Further information on the calculation of the net asset value of a Fund is described in the Fund's Annual Information Form. Please see page 1 to find out how to obtain a copy.

Please note that for units that are purchased or redeemed through registered dealers approved by us, investors may be required to pay different fees and expenses. Please refer to "Fees and Expenses" on page 12 and "Dealer Compensation" on page 16.

#### **Purchases of Series A Units and Series T Units**

Series A units of the Funds and Series T units of Sprott Diversified Yield Fund and Sprott Tactical Balanced Fund are available to all investors under the following purchase options as indicated:

##### ***Initial Sales Charge Option***

Under the Initial Sales Charge Option, investors may pay a fee of:

- between 0% to 5% to the dealer at the time of purchase for units of each of the Funds (except for Sprott Short-Term Bond Fund); and
- between 0% to 2% for units of Sprott Short-Term Bond Fund.

Series A units of Sprott Short-Term Bond Fund are only available under the Initial Sales Charge Option.

##### ***Low Load Option***

Under the Low Load Option, investors pay no fees at the time of purchase, but the Manager pays a fee of:

- 3% to the dealer at the time of purchase for each of the Funds (except for Sprott Diversified Yield Fund); and
- 2.5% to the dealer at the time of purchase of Sprott Diversified Yield Fund.

Please see “Fees and Expenses” on page 12 and “Dealer Compensation” on page 16.

#### **Purchases of Series D Units**

Series D units of Sprott Tactical Balanced Fund are available to Members under the Initial Sales Charge Option. No fees are paid to the dealer at the time of purchase for Series D units of Sprott Tactical Balanced Fund. We may redeem an investor’s units if the investor is no longer a Member, or if we become aware that the investor is not a Member.

#### **Purchases of Series F Units**

Series F units are available to investors who participate in fee-based programs with dealers who have signed a Series F Agreement with us, investors for whom we do not incur any distribution costs, or individual investors approved by us. In fee-based programs, instead of paying sales charges or other charges on the purchase or redemption of Series F units, investors pay their dealer ongoing fees for investment management or financial planning advice. We don’t pay any commissions or trailer fees to dealers who sell Series F units.

If you cease to be eligible to hold Series F units of a Fund, we may reclassify your Series F units into Series A units of the same Fund under the Initial Sales Charge Option, after providing you with 5 days’ notice, unless you notify us during the notice period and we agree that you are once again eligible to hold Series F units.

#### **Purchases of Series I Units**

Series I units are available to institutional investors or to other investors on a case-by-case basis, all at our discretion. If you cease to be eligible to hold Series I units, we may reclassify your Series I units into Series A units of the same Fund under the Initial Sales Charge Option after providing you with 5 days’ notice, unless you notify us during the notice period and we agree that you are once again eligible to hold Series I units.

#### **Switches between Sprott Mutual Funds**

You may, at any time, switch all or part of your investment in a series of units of a Fund to units of another Sprott mutual fund of the same series and the same purchase option, provided that the series of units you wish to switch to is offered by that other Sprott mutual fund. If you wish to switch all or part of your investment in Series A units of a Fund or Series T units of Sprott Diversified Yield Fund or Sprott Tactical Balanced Fund that were purchased under the Low Load Option to a series of another Sprott mutual fund that is not available under the Low Load Option, you will be charged the amount of the applicable deferred sales charge at the time of such switch. You may request a switch of your series of units by contacting your registered broker or dealer. A switch is a redemption of units of a Fund and a purchase of units of another Sprott mutual fund, resulting in a taxable disposition of the units switched. Accordingly, you will likely realize a capital gain or loss on the switch transaction. Please see “Income Tax Considerations for Investors” on page 18.

If you switch Series A units of a Fund or Series T units of Sprott Diversified Yield Fund or Sprott Tactical Balanced Fund purchased under the Low Load Option into the same series of units of another Sprott mutual fund available under the Low Load Option, for purposes of the Low Load Option, the original purchase date and price of the original series of units will continue to apply.

When you switch units of any series of a Sprott mutual fund, your registered dealer may charge you a switch fee of up to 2% of the net asset value of the units switched. This fee is negotiated with and paid to your dealer.

There is no switch fee charged when you switch units of any series of Sprott Short-Term Bond Fund.

Upon a switch of your series of units, the number of units you hold will change since each series of units of a Sprott mutual fund has a different series net asset value.

#### **Reclassification between Series of a Fund**

You may, at any time, reclassify all or part of your investment in one series of a Fund to another series of the same Fund, provided that you are eligible to invest in the series of units that you are reclassifying into. If you wish to reclassify all or part of your investment in Series A units of a Fund or Series T units of Sprott Diversified Yield Fund or Sprott Tactical Balanced Fund that were purchased under the Low Load Option to a series of the Fund that is not available under the Low Load Option, you will be charged the amount of the applicable deferred sales charge at the time of such reclassification. If you wish to reclassify all or part of your investment in Series F, Series I or

Series D units of a Fund into Series A or Series T units of the same Fund, you can choose the Initial Sales Charge Option or the Low Load Option. If you choose the Low Load Option, the new series of units issued to you will be subject to a deferred sales charge. A reclassification between series of units of a Fund will not be considered a disposition for tax purposes and, accordingly, provided there is no redemption of units in order to pay the deferred sales charges, you will not realize a capital gain or loss. Please see “Income Tax Considerations for Investors” on page 18. You may request a reclassification of your series of units by contacting your registered broker or dealer.

When you reclassify units of a series of a Fund (except for series of units of Sprott Short-Term Bond Fund), your registered dealer may charge you a fee of up to 2% of the net asset value of the units reclassified. This fee is negotiated with and paid to your dealer. There is no fee charged when you reclassify units of Sprott Short-Term Bond Fund.

Upon a reclassification of your series of units, the number of units you hold will change since each series of units of a Sprott mutual fund has a different series net asset value. If you cease to satisfy the criteria for holding Series F, Series I or Series D units of a Fund, such series of units held by you will be reclassified as Series A units of the Fund under the Initial Sales Charge Option.

### **Redemptions for all Series of Units**

You may redeem your units of a Fund by completing a redemption request and depositing it with your registered dealer approved by us. We may require that an investor’s signature on any redemption request be guaranteed by a bank, trust company, credit union or otherwise to our satisfaction. A redemption request received by RBC Dexia Investor Services Trust before 4:00 p.m. (Eastern time) on a regular business day will receive the redemption price for the applicable series of units established at close of business on that day. A redemption request received after 4:00 p.m. (Eastern time) or on a day which is not a regular business day in Toronto, Ontario will receive the redemption price for the applicable series of units as of the close of business on the next regular business day. A dealer which receives a redemption request is required to transmit the redemption request to RBC Dexia Investor Services Trust *without charge to the investor* and where practicable, by courier, priority post or telecommunications facility.

Please note that in certain circumstances under the Low Load Option, you may be required to pay a deferred sales charge if you redeem units. Please refer to “Fees and expenses payable directly by you” on page 14 for details.

**RBC Dexia Investor Services Trust will pay redemption proceeds within three business days after the receipt of your order, provided the written request for redemption submitted to your registered dealer is complete and your registered dealer has provided correct settlement instructions to RBC Dexia Investor Services Trust.**

We have the right, upon 30 days’ written notice to the investor, to redeem units owned by an investor if the value of those units is less than \$1,000. An investor may prevent the automatic redemption by purchasing additional units to increase the value of the units to an amount equal to or greater than \$1,000 before the end of the 30-day notice period. Applicable deferred sales charges are payable on such automatic redemptions.

We have the right, upon 30 days’ written notice to the investor, to redeem Series D units of Sprott Tactical Balanced Fund owned by an investor if the investor ceases to be a Member, or if we become aware that the investor is not a Member.

Under extraordinary circumstances, the rights of investors to redeem units of a Fund may be suspended. This would most likely occur if normal trading is suspended in the market, within or outside Canada, which represents more than 50% by value, or underlying market exposure, of the total assets of the Fund (without any allowance for liabilities) and if the assets of the Fund cannot be traded in any other market that represents a reasonably practical alternative for the Fund. The Manager may also suspend the redemption of units of a Fund with the consent of any securities commission or regulatory body having jurisdiction.

### **Short-Term Trading**

Short-term trading in units of a Fund can have an adverse effect on the Fund. Such trading can increase brokerage and other administrative costs of the Fund and interfere with our long-term investment decisions.

We have adopted certain restrictions to deter short-term trading. For example, we may restrict your purchases if you engage in such short-term trading. Our restrictions also include charging a fee of up to 3% of the net asset value of the units of the Fund (except for Sprott Diversified Yield Fund and Sprott Short-Term Bond Fund) that are redeemed within 180 days of purchasing or switching them. For Sprott Diversified Yield Fund, our restrictions also include charging a fee of up to 1.5% of the net asset value of the units of the Fund that are redeemed within 60 days of purchasing them. We will not impose any short-term trading fees for the redemption of units of Sprott Short-Term Bond Fund. These fees are payable to the Manager. They are in addition to any deferred sales charges that may apply and will reduce the amount otherwise payable to you on the redemption.

The short-term trading fees will not be charged:

- (i) for a redemption of units acquired through automatic reinvestment of all distributions of net income or capital gains by a Fund;
- (ii) for a redemption of units in connection with a failed settlement of a purchase of units;
- (iii) as a result of switching between a Fund and another Sprott mutual fund;
- (iv) as a result of reclassifying units of a Fund from one series into another series of the Fund;
- (v) for a redemption of units by another investment fund or investment product approved by us; or
- (vi) in the absolute discretion of the Manager.

For purposes of the short-term trading fee, units will be considered to be redeemed on a first-in first-out basis.

While these restrictions and our monitoring attempt to deter short-term trading, we cannot ensure that such trading will be completely eliminated.

Please see “Short-Term Trading Fee” under “Fees and expenses payable directly by you” on page 15.

### **OPTIONAL SERVICES**

#### **Pre-authorized Chequing Plan**

Each Fund offers an automatic investment plan to allow investors to make regular bi-weekly, monthly, quarterly, semi-annual or annual purchases of units. The minimum initial investment in each Fund is \$1,000 and the minimum amount of each subsequent bi-weekly, monthly, quarterly, semi-annual or annual purchase in each Fund is \$100. An investor may change the dollar amount of his or her investment, the frequency of payment or discontinue the plan by giving prior written notice to their registered dealer.

#### **Averaging the Cost of Your Investments**

Making regular investments through our pre-authorized purchase plan can reduce the cost of investing, through a technique called dollar cost averaging. Investing equal amounts of money at regular intervals on an ongoing basis ensures that an investor buys fewer units when prices are high and more units when prices are low. Over time, this can mean a lower average cost per unit than by making one lump sum purchase.

## Registered Tax Plans

Units of the Funds are qualified investments under the *Income Tax Act* (Canada) (the “Act”) for registered tax plans (as defined below). We offer registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), life income funds (LIFs), locked-in retirement income funds (LRIFs), locked-in retirement accounts (LIRAs) and tax-free savings accounts (TFSA). Annuitants of RRSPs and RRIFs, and holders of TFSA, should consult with their tax advisors as to whether units of the Funds would be prohibited investments under the Act in their particular circumstances. Investors should consult their tax advisers for full particulars of the tax implications of establishing, amending and terminating registered tax plans.

## FEES AND EXPENSES

This table lists the fees and expenses that you may have to pay if you invest in a Fund. You may have to pay some of these fees and expenses directly. Each Fund may have to pay some of these fees and expenses, and as a result will reduce the value of your investment in a particular Fund.

<b>Fees and Expenses Payable by the Funds<sup>1</sup></b>	
<b>Management Fees</b>	<p>Each Fund pays the Manager an annual management fee to cover management expenses. Management fees are unique to each Fund and are subject to applicable taxes including HST. The management fee is calculated and accrued daily and is paid on the last day of each month based on the daily net asset value of each Fund. This fee differs among the series of units. The management fee for Series I units of each Fund is negotiated by the investor and paid directly by the investor or by the Fund, and would not exceed the management fee for Series A units of the Fund.</p> <p>To encourage large purchases in a Fund and to achieve effective management fees that are competitive for these investments, the Manager may reduce the management fee payable by a Fund with respect to a particular investor, based on a number of factors including the type of investor and the number and value of units held by an investor. At a minimum, an investor must hold \$15,000,000 of investments in a Fund in order to be eligible for this management fee reduction, although this minimum amount may be waived in the absolute discretion of the Manager. Investors who are entitled to the benefit of a lower management fee will receive a proportionately larger distribution (a “fee distribution”) from a Fund so that those investors receive the benefit of the lower management fee. Fee distributions are paid first out of net income and net realized capital gains, and thereafter out of capital.</p>
<b>Operating Expenses</b>	<p>Each Fund pays its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager.</p> <p>Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, independent review committee member fees, costs and fees in connection with the operation of the independent review committee (the “IRC”) (including the costs of holding meetings, insurance premiums for the IRC, and fees and expenses of any advisors engaged by the IRC), safekeeping, trustee and custodial fees, interest expenses, operating and administrative costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses. Operating expenses and other costs of a Fund are subject to applicable taxes including HST.</p> <p>Each Sprott mutual fund pays a proportionate share of the total compensation paid to the IRC each year and reimburses members of the IRC for expenses incurred by them in connection with their services as members of the IRC. Each member of the IRC, other than the Chairman, is paid, as compensation for his services, \$25,000 per annum. The Chairman is paid \$30,000 per annum.</p>
<b>Incentive Fee<sup>2</sup></b>	<p>Each Fund except Sprott Short-Term Bond Fund and Sprott Tactical Balanced Fund (see below) pays us annually an incentive fee, subject to applicable taxes including HST, equal to a percentage of the daily net asset value of the applicable series of the</p>

Fund. Such percentage will be equal to 10% of the difference by which the return in the net asset value per unit of the applicable series of the Funds from January 1 to December 31 exceeds the percentage return of the applicable index (or any successor index to such index) or blended benchmark index in the case of Sprott Diversified Yield Fund, as indicated below, for the same period.

Sprott Canadian Equity Fund, Sprott Growth Fund and Sprott All Cap Fund	S&P/TSX Composite Total Return Index
Sprott Diversified Yield Fund	75% of the daily return of the BofA Merrill Lynch US High Yield Index, hedged to Canadian dollars (or any successor index to such index), and  25% of the daily return of the DEX Universe Bond Index (or any successor index to such index).
Sprott Gold and Precious Minerals Fund	S&P/TSX Global Gold Index
Sprott Energy Fund	S&P/TSX Capped Energy Total Return Index
Sprott Small Cap Equity Fund	S&P/TSX SmallCap Total Return Index

The S&P/TSX Composite Total Return Index is based on stocks that make up the S&P/TSX Composite Index, with the assumption that all dividends paid are reinvested in the stocks in proportion to their index weights.

The BofA Merrill Lynch US High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings). In addition, qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of \$100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and U.S. domestic bond markets), 144a securities and pay in kind securities, including toggle notes, qualify for inclusion in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed to floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. DRD-eligible and defaulted securities are excluded from the index.

The DEX Universe Bond Index is designed to be a broad measure of the Canadian investment grade fixed income market. Returns are calculated daily, and are weighted by market capitalization, so that the return on a bond influences the return on the index in proportion to the bond's market value. There are four main credit or borrower categories: bonds issued by the Government of Canada (including Crown Corporations), provincial bonds (including provincially guaranteed securities), municipal bonds, and corporate bonds. Coupon income, realized and unrealized, is

	<p>reinvested daily across all bonds in the index in proportion to their market value.</p> <p>The S&amp;P/TSX Global Gold Index is based on the performance of selected gold and precious minerals stocks, including stocks of companies that are not incorporated in Canada and do not trade on the Toronto Stock Exchange, with the assumption that all dividends paid are reinvested in the stocks in proportion to their index weights.</p> <p>The S&amp;P/TSX Capped Energy Total Return Index is based on a subset of the stocks that make up the S&amp;P/TSX Composite Index, with the assumption that all dividends paid are reinvested in the stocks in proportion to their index weights.</p> <p>The S&amp;P/TSX SmallCap Total Return Index represents the small cap universe for Canada. It includes constituents of the S&amp;P/TSX Composite Index, with the assumption that all dividends paid are reinvested in the stocks in proportion to their index weights, excluding members of the S&amp;P/TSX 60 or the S&amp;P/TSX MidCap.</p> <p>If the performance of a series of a Fund in any year is less than the performance of the applicable index described above (the “Deficiency”), then no incentive fee will be payable in any subsequent year until the performance of the applicable series of the applicable Fund, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the Deficiency.</p> <p>We may reduce the incentive fee payable by a Fund with respect to a particular investor. Investors who are entitled to the benefit of a lower incentive fee may receive a fee distribution from a Fund so that those investors receive the benefit of the lower incentive fee. Additionally, investors in Series I units may negotiate a different incentive fee than the one described above or no incentive fee at all.</p> <p>Although the Sprott Tactical Balanced Fund does not pay us an incentive fee directly, some of the underlying funds in which it invests will pay us annually an incentive fee, subject to applicable taxes including HST as disclosed herein or in the simplified prospectus of such underlying fund.</p>
<b>Fund-of-funds Fees and Expenses</b>	When Sprott Tactical Balanced Fund invests in an underlying fund, the underlying fund may pay a management and incentive fee and other expenses in addition to the fees and expenses payable by the Fund. However, the Fund will not pay a management or incentive fee that would duplicate a fee payable by the underlying fund for the same service. In addition, the Fund will not pay any sales charges or redemption fees for its purchase or redemption of units of any underlying fund that is a Sprott mutual fund.
<b>Fees and expenses payable directly by you</b>	
<b>Sales Charges</b>	Under the Initial Sales Charge Option, a sales charge of 0-5% of the amount you invest may be charged if you purchase Series A and Series T units of the Funds (except Sprott Short-Term Bond Fund). A sales charge of 0-2% of the amount you invest may be charged if you purchase Series A units of Sprott Short-Term Bond Fund under the Initial Sales Charge Option. You can negotiate these amounts with your dealer. No fees are paid to the dealer at the time of purchase of Series D units of Sprott Tactical Balanced Fund.
<b>Switch/Reclassification Fees</b>	<p>A switch fee of 0-2% of the value of the units of the Funds you wish to switch or reclassify may be charged as negotiated with your dealer. There are no fees to switch or reclassify your units of Sprott Short-Term Bond Fund.</p> <p>If you reclassify Series A or Series T units of a Fund that are subject to a deferred sales charge into a series of units of the Fund that are not subject to a deferred sales charge, you will be charged the amount of the applicable deferred sales charge at the time of such reclassification. See “Redemption Fees” below.</p>
<b>Redemption Fees</b>	Under the Low Load Option, you pay a deferred sales charge at the following rates if

	<p>you redeem your Series A or Series T units, or reclassify your units into another series of units of the Fund, during the time periods specified:</p> <p>First year: 3%  Second Year: 2.75%  Third Year: 2.50%  Thereafter: Nil</p> <p>The deferred sales charge fee is based on the original purchase price of the Series A or Series T units you are redeeming or reclassifying. For purposes of this deferred sales charge, units will be considered to be redeemed on a first-in first-out basis.</p> <p>Otherwise there are no redemption fees payable upon the redemption of units of a Fund (subject to a short-term trading fee, when applicable).</p>
<b>Short-Term Trading Fee</b>	<p>We may impose a short-term trading fee payable by the unitholder to the Manager of:</p> <ul style="list-style-type: none"> <li>• up to 3% of the aggregate net asset value of the units redeemed if such units are redeemed within 180 days of their date of purchase or switch for each of the Funds (except Sprott Diversified Yield Fund and Sprott Short-Term Bond Fund); and</li> <li>• up to 1.5% of the aggregate net asset value of the units redeemed if such units are redeemed within 60 days of their date of purchase or switch for Sprott Diversified Yield Fund.</li> </ul> <p>We will not impose any short-term trading fees for the redemption of units of Sprott Short-Term Bond Fund.</p> <p>A short-term trading fee will not be charged for a redemption of units (i) acquired through automatic reinvestment of all distributions of net income or capital gains by a Fund; (ii) in connection with a failed settlement of a purchase of units; (iii) as a result of switching between a Fund and another Sprott mutual fund; (iv) as a result of reclassifying units of a Fund from one series into another series of a Fund; (v) for a redemption of units by another investment fund or investment product approved by us; or (vi) in the absolute discretion of the Manager. For purposes of this short-term trading fee, units will be considered to be redeemed on a first-in first-out basis. Short-term trading fees are payable in addition to any applicable deferred sales charges.</p>
<b>Pre-Authorized Chequing Plan</b>	No fee is charged to open, close or administer an account.
<b>Registered Tax Plan Fees</b>	No fee is charged to open, close or administer a Sprott registered tax plan. However, for other registered tax plans holding other investments in addition to units of a Fund, an annual trustee fee may apply. Please consult your adviser regarding this fee.
<b>Other Expenses</b>	No other charges apply. If applicable, you may be subject to fees and expenses by your dealer.

<sup>1</sup> When the basis of the calculation of a fee or expense that is charged to a Fund is changed in a way that could result in an increase in charges to the Fund or to you, and when such fee or expense is charged by an entity that is at arm's length to the Fund, you will not be asked to approve such change; however, you will receive written notice at least 60 days before the effective date of the change.

<sup>2</sup> The net asset value per unit includes all expenses and is calculated before income and capital gains are distributed. The incentive fee is calculated and accrued daily and paid annually on a calendar year basis.

### **IMPACT OF SALES CHARGES**

The following table shows the amount of fees that you would have to pay under the different purchase options available to you if you made an investment of \$1,000 in a Fund, if you held that investment for one, three, five or ten years and redeemed immediately before the end of that period.

If applicable, sales charges may apply when you purchase or redeem units. These fees can be negotiated between you and the dealer.

		<b>At Time of Purchase</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Initial Sales Charge Option <sup>1</sup>	All Funds <sup>2</sup> (except as noted below)	\$50 <sup>4</sup>	Nil	Nil	Nil	Nil
	Sprott Short-Term Bond Fund	\$20 <sup>5</sup>	Nil	Nil	Nil	Nil
Low Load Option <sup>1,3</sup>		Nil	\$30	\$25	Nil	Nil

<sup>1</sup> A short-term trading fee may be applicable if units of the Funds (except for Sprott Diversified Yield Fund and Sprott Short-Term Bond Fund) are redeemed within 180 days of their date of purchase or switch. A short-term trading fee may also be applicable if units of Sprott Diversified Yield Fund are redeemed within 60 days of their date of purchase or switch. We will not impose any short-term trading fees for the redemption of units of Sprott Short-Term Bond Fund. See “Short-Term Trading Fee” in the chart on page 15.

<sup>2</sup> There are no sales charges payable if you purchase Series D units of Sprott Tactical Balanced Fund.

<sup>3</sup> Deferred sales charges under the Low Load Option may apply only if you redeem or reclassify your Series A or Series T units of the Funds within three years of purchase. Deferred sales charges are shown under “Fees and Expenses”.

<sup>4</sup> Assumes the maximum initial sales charge of 5% for Series A or Series T units of Funds except as noted below. The actual amount of the initial sales charge will be negotiated by you and your dealer.

<sup>5</sup> Assumes the maximum initial sales charge of 2% for Series A units of Sprott Short-Term Bond Fund. The actual amount of the initial sales charge will be negotiated between you and your dealer.

## **DEALER COMPENSATION**

Your dealer may receive two types of compensation – sales commissions and service fees.

### **Sales Commission**

#### *Initial Sales Charge Option*

For Series A and Series T units of a Fund purchased under the Initial Sales Charge Option, the dealer which distributes such units may charge you a sales commission of:

- up to 5.0% (\$50 for each \$1,000 investment) of the value of the Series A or Series T units of the Funds you purchased (except Sprott Short-Term Bond Fund); and
- up to 2.0% (\$20 for each \$1,000 investment) of the value of the Series A units of Sprott Short-Term Bond Fund you purchased.

For series D units of Sprott Tactical Balanced Fund purchased under the Initial Sales Charge Option, the dealer which distributes such units will not charge you a sales commission.

#### *Low Load Option*

For Series A and Series T units of a Fund purchased under the Low Load Option, we will pay your dealer a sales commission of:

- 3% (\$30 for each \$1,000 investment) of the value of the Series A or Series T units of the Funds you purchased (except Sprott Diversified Yield Fund); and
- 2.5% (\$25 for each \$1,000 investment) of the value of the Series A or Series T units of Sprott Diversified Yield Fund you purchased.

## **Service Fees**

Service fees are paid by the Manager from management fees and are not paid by a Fund directly. We may, at our discretion, negotiate, change the terms and conditions of, or discontinue the service fees with dealers.

### *Initial Sales Charge Option*

For Series A, Series T or Series D units of the Funds distributed under the Initial Sales Charge Option, a dealer that distributes such units may receive an annual service fee of:

- up to 1% (\$10 for each \$1,000 investment) of the value of Series A or Series T units of the Funds held by the dealer's clients. Payments are calculated and paid monthly at the rate of up to 1/12 of 1% of the value of Series A or Series T units of the Funds held by the dealer's clients (except for Sprott Diversified Yield Fund and Sprott Short-Term Bond Fund);
- up to 0.65% (\$6.50 for each \$1,000 investment) of the value of Series A or Series T units of Sprott Diversified Yield Fund held by the dealer's clients. Payments are calculated and paid monthly at the rate of up to 1/12 of 0.65% of the value of Series A or Series T units of Sprott Diversified Yield Fund held by the dealer's clients;
- up to 0.25% (\$2.50 for each \$1,000 investment) of the value of Series A units of Sprott Short-Term Bond Fund held by the dealer's clients. Payments are calculated and paid monthly at the rate of up to 1/12 of 0.25% of the value of Series A units of Sprott Short-Term Bond Fund held by the dealer's clients; and
- up to 0.85% (\$8.50 for each \$1,000 investment) of the value of the Series D units of Sprott Tactical Balanced Fund held by the dealer's clients. Payments are calculated and paid monthly at the rate of up to 1/12 of 0.85% of the value of Series D units of Sprott Tactical Balanced Fund held by the dealer's clients.

### *Low Load Option*

For Series A or Series T units of the Funds distributed under the Low Load Option, a dealer that distributes such units may receive an annual service fee of:

- up to 1% (\$10 for each \$1,000 investment) of the value of Series A or Series T units of the Funds (except for Sprott Diversified Yield Fund) held by the dealer's clients for more than one year. Payments are calculated and paid monthly at the rate of up to 1/12 of 1% of the value of Series A or Series T units of the Fund held for more than one year by the dealer's clients; and
- up to 0.35% (\$3.50 for each \$1,000 investment) of the value of Series A or Series T units of Sprott Diversified Yield Fund held by the dealer's clients for the first three years. Payments are calculated and paid monthly at the rate of up to 1/12 of 0.35% of the value of Series A or Series T units of Sprott Diversified Yield Fund held for the first three years by the dealer's clients. After the end of the third year and thereafter, the dealer will receive an annual service fee of 0.65% (\$6.50 for each \$1,000 investment) of the value of the Series A or Series T units held in Sprott Diversified Yield Fund by the dealer's clients. Payments are calculated and paid monthly at the rate of up to 1/12 of 0.65% of the value of Series A or Series T units of Sprott Diversified Yield Fund after the units are held for three years by the dealer's clients.

## **Equity Interests**

The general partner of Sprott Asset Management LP, the manager and portfolio advisor of the Fund, is Sprott Asset Management GP Inc. Sprott Asset Management GP Inc. is a wholly-owned subsidiary of Sprott Inc. Sprott Inc. is the sole limited partner, and owns 99.99% of the issued and outstanding voting securities, of Sprott Asset Management LP. Sprott Inc. also owns, directly or indirectly, 100% of the issued and outstanding securities of the general partner of Sprott Private Wealth LP, a dealer which may hold, sell and recommend securities of the Fund. At the date of this Simplified Prospectus, each of Eric S. Sprott, the Chief Executive Officer and a director of the general partner of Sprott Asset Management LP and The Rule Family Trust, directly owned more than 10% of all the issued and outstanding voting securities of Sprott Inc.

## **DEALER COMPENSATION FROM MANAGEMENT FEES**

The Manager paid dealers compensation of approximately 35% of the total management fees that the Manager received from all the Sprott mutual funds during the financial year that ended December 31, 2010. This includes amounts the Manager paid to dealers for service fees.

## **INCOME TAX CONSIDERATIONS FOR INVESTORS**

This summary assumes that you are an individual (other than a trust) and that you are resident in Canada and hold units of a Fund as capital property for the purposes of the Act. This summary is based on the current provisions of the Act and the regulations thereunder, specific proposals to amend the Act and regulations that have been publicly announced by the Minister of Finance (Canada) (“Minister”) prior to the date hereof and the published administrative practices and policies of the Canada Revenue Agency. This summary is not exhaustive of all tax considerations and is not intended to constitute legal or tax advice to an investor. You should seek independent advice regarding the tax consequences of investing in units, based on your own particular circumstances. This summary assumes that each Fund will qualify as a mutual fund trust under the Act effective at all material times.

### **For Units Held in a Registered Tax Plan**

If units of a Fund are held in an RRSP, RRIF, deferred profit sharing plan, registered education savings plan (RESP), registered disability savings plan (RDSP) or TFSA (collectively, “registered tax plans”), distributions from the Fund and capital gains from a disposition of the units of the Fund are generally not subject to tax under the Act until withdrawals are made from the registered tax plan (withdrawals from a TFSA are not subject to tax, and RESPs and RDSPs are subject to special rules).

### **Contributions**

You should be careful not to contribute more to your registered tax plan than allowed under the Act or you may have to pay a penalty tax.

### **For Units Not Held in a Registered Tax Plan**

If you hold units of a Fund outside of a registered tax plan, you must include in computing your income for tax purposes the amount of the net income and the taxable portion of the net realized capital gains paid or payable to you by the Fund in the year (including by way of a fee distribution), computed in Canadian dollars, whether you receive these distributions in cash or the amounts are reinvested in additional units. Gains and losses of a Fund from derivatives, short sales, and gold, precious metals and minerals will be treated on income account or capital account depending on the particular circumstances, including whether they are used for hedging or non-hedging purposes. A Fund may treat gains as a result of dispositions in gold bullion as capital gains, depending on the circumstances. The Canada Revenue Agency has expressed its opinion that gains (or losses) from transactions in commodities should generally be treated for tax purposes as ordinary income (or losses) rather than as capital gains (or losses), although treatment in each particular case remains to be determined having regard to all relevant circumstances. The Funds will generally treat gains and losses from trading in derivatives for hedging purposes in the same manner as the investments that such derivatives are used to hedge. For example, if derivatives are used to hedge investments treated on capital account, gains and losses from trading in such derivatives, generally, will also be treated as capital gains and losses. The Canada Revenue Agency may not agree with the Funds position in this regard. If any transactions of the Funds are reported by it on capital account but are subsequently determined by the Canada Revenue Agency to be on income account, there may be an increase in the net income of the Fund for tax purposes, and in the taxable distributions made by the Fund to unitholders, with the result that unitholders could be reassessed by the Canada Revenue Agency to increase their taxable income.

To the extent that a Fund so designates under the Act, distributions of net taxable capital gains, taxable dividends on shares of taxable Canadian corporations and foreign source income of the Fund paid or payable to you by the Fund will effectively retain their character in your hands and be subject to the special tax treatment applicable to income of that character. An enhanced dividend tax credit is available for certain eligible dividends from Canadian corporations. To the extent that the distributions (including fee distributions) paid or payable to you by a Fund in a year exceed your share of the net income and net capital gains of the Fund allocated to you for the year, those distributions (except to the extent that they are proceeds of disposition) will be a return of capital and will not generally be taxable to you in the year of receipt but will reduce the adjusted cost base of your units in the Fund. If

the adjusted cost base of your units is reduced to less than zero you will be deemed to have realized a capital gain equal to the negative amount and the adjusted cost base of your units will be increased to nil.

You will be taxed on distributions of income and capital gains by a Fund, even if the income and capital gains accrued to the Fund or were realized by the Fund before you acquired the units and were reflected in the purchase price of the units. This may be of particular relevance to you if you purchase units late in a calendar year or before a distribution date.

Each Fund's portfolio turnover rate indicates how actively the Fund's investment adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to a Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the chance that you will receive a distribution from the Fund that must be included in computing your income for tax purposes for the year.

Management fees paid directly to the Manager by holders of Series I units will not be deductible by those unitholders.

If you dispose of your units, whether by switching to units of another mutual fund managed by us, redemption or otherwise, you will realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, less any costs of disposition, are greater (or less) than the adjusted cost base of the units. The adjusted cost base of your units of a series is generally calculated by adding all your investments in that series (along with sales charges) and any reinvested distributions, and then subtracting any returns of capital and the adjusted cost base attributed to any previous redemptions. Generally, one-half of a capital gain must be included in your income as a taxable capital gain and one-half of a capital loss may be used to offset taxable capital gains in accordance with the provisions of the Act. A reclassification of one series of units of a Fund into another series of units of the same Fund will not, by itself, result in a disposition of the units being reclassified.

Capital gains and Canadian dividends may result in a liability for alternative minimum tax.

## **WHAT ARE YOUR LEGAL RIGHTS?**

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the Simplified Prospectus, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and receive your money back, or to make a claim for damages, if the Simplified Prospectus, Annual Information Form or financial statements misrepresent any facts about a Fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

## **ADDITIONAL INFORMATION**

### **Referral Arrangement**

Series D units of Sprott Tactical Balanced Fund are offered to Members of FNSSC who purchase units of the Fund through their brokers and dealers in Canada. FNSSC promotes the existence and availability of the Fund to Members who may be interested in purchasing Series D units of the Fund through their brokers and dealers (a "Referral"). We have entered into a written agreement governing such Referrals with FNSSC.

We are registered as an adviser in the category of portfolio manager in British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Newfoundland and Labrador, and as an adviser in the category of portfolio manager and as a dealer in the category of exempt market dealer in Ontario. We will at all times during the period of the referral arrangement maintain our registration in such categories of registration or such other categories of registration required or permitted from time to time to provide such services, including the category of investment fund manager.

All activities requiring registration under applicable securities legislation in connection with a Referral will be provided by us.

**Referral Fees**

The current referral fee is determined and payable as follows:

1. We pay a referral fee to FNSSC, which is based on an annual rate of 0.20% of the net asset value of all Series D units of Sprott Tactical Balanced Fund held by Members who were resident in a province or territory of Canada at the time of purchase.
2. The referral fee in respect of Series D units of Sprott Tactical Balanced Fund held by a Member at any given time is calculated monthly on the last business day of each month as the net asset value per Series D unit of the Fund as at the close of business on such day, multiplied by the number of Series D units of the Fund held by the Member at the close of business on such day.
3. Referral fees are paid to FNSSC by us in arrears within five business days of the end of each quarter.

**Conflicts of Interest**

As of the date of this Simplified Prospectus, we are not aware of any conflict of interest between FNSSC and us or Sprott Tactical Balanced Fund.

## SPECIFIC INFORMATION ABOUT THE FUNDS

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### SPROTT CANADIAN EQUITY FUND

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#### FUND DETAILS

Type of Fund:	Canadian Equity, Growth and Value Fund
Date Started:	Series A: September 26, 1997 Series F: October 12, 2004 Series I: November 2, 2009
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

#### WHAT DOES THE FUND INVEST IN?

##### *Investment Objectives*

The investment objective of the Fund is to outperform the broad Canadian equity market as measured by the S&P/TSX Composite Total Return Index (or its successor index), over the long term of 5+ years, providing long-term capital appreciation and value by investing primarily in small-to-mid capitalization stocks of Canadian issuers. To assist in achieving this objective, the Fund may focus its assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

##### *Investment Strategies*

The key aspect of the Fund's strategy is seeking out undervalued companies backed by strong management teams and solid business models that can benefit from macro-economic trends. The Portfolio Adviser looks for exciting ideas and opportunities whose full value has yet to be realized. In determining the portfolio's sector weighting, the Portfolio Adviser thoroughly analyzes the current economic conditions and trends in North American and global economies and seeks to respond quickly to such changes. The portfolio is positioned in accordance with the Portfolio Adviser's market view from time to time. Sector allocations may vary significantly over time.

The Fund's investment focus is small-to-mid capitalization Canadian equities with the potential for high appreciation in sectors that the Portfolio Adviser believes to be economically favourable. The Fund may from time to time over weight certain industry sectors such as gold, silver, oil and gas and certain asset classes, such as cash, gold and silver when deemed appropriate by the Portfolio Adviser. This may result in the Fund's portfolio weightings being substantially different from the weightings of the S&P/TSX Composite Total Return Index (or its successor index).

The Fund has obtained relief from the Canadian securities regulators to permit the Fund to invest up to 20% of its net assets in gold or a permitted gold certificate and silver (or specified derivatives of which the underlying interest is gold or silver) at the time of investment.

The Fund may also choose to:

- invest in Canadian debt securities and foreign securities, provided such investments comply with the investment restrictions and practices adopted by the Fund. The Fund's aggregate exposure to foreign securities will not exceed approximately 35% (at the time of investment and on a cost basis) of its assets. The

Fund may invest in debt securities primarily for defensive purposes. The Fund may also choose other permitted investments when considered appropriate;

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see “Securities lending, repurchase and reverse repurchase transactions risk” on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund’s investments and from exposure to foreign currencies; and
  - gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Commodity risk
- Concentration risk
- Credit risk
- Currency risk
- Derivatives risk
- Exchange traded funds risk
- Foreign investment risk
- Inflation risk
- Interest rate risk
- Liquidity risk
- Market risk
- Securities lending, repurchase and reverse repurchase transactions risk
- Series risk

- Short selling risk
- Small capitalization natural resource company risk
- Small company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

### **WHO SHOULD INVEST IN THIS FUND?**

This Fund is suitable for those investors who are less conservative and those who want to share in the opportunities offered by the Canadian economy.

In accordance with the methodology recommended by the Fund Risk Classification Task Force of The Investment Funds Institute of Canada (“Task Force”) described below, the risk rating assigned to this Fund is above average risk and it is appropriate if you have the expectation of higher long-term returns, which requires the ability to assume short-term volatility over a long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund’s historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to *invest@sprott.com*.

### **DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund’s net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December. All distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per unit of that series without any fee.

### **FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund’s returns.

This table outlines a hypothetical example of the investor’s cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	35.26	107.35	181.57	376.93
<b>Series F (\$)</b>	24.19	74.46	127.36	272.02
<b>Series I (\$)</b>	21.63	66.74	114.45	246.08

See “Fees and Expenses” on page 12 for more information about the costs of investing in the Fund.

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**SPROTT DIVERSIFIED YIELD FUND**

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**FUND DETAILS**

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Type of Fund:	Diversified high-yield fixed income fund
Date Started:	Series A: August 5, 2010 Series T: August 5, 2010 Series F: August 5, 2010 Series I: December 1, 2010
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 1.65% Series T: Up to 1.65% Series F: Up to 1.00% Series I: negotiated by the unitholder

**WHAT DOES THE FUND INVEST IN?*****Investment Objectives***

The Fund's investment objective is to maximize the total return of the Fund and to provide income by investing primarily in debt and debt-like securities of corporate and government issuers from around the world.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

***Investment Strategies***

To achieve the Fund's investment objectives, the Portfolio Adviser will take a flexible approach in investing in debt instruments and the allocation will depend on the Portfolio Adviser's view of economic and market conditions. In addition, the Portfolio Adviser will select the Fund's investments in an effort to take advantage of the credit cycle and the differences in currencies, interest rates and credits between countries based on global macroeconomic and political analysis. The Portfolio Adviser may also invest a portion of the Fund's assets in exchange-traded funds to gain exposure to the securities described herein. The Fund's holdings denominated in foreign currencies and the currency exposures will be actively managed and will be generally hedged back to the Canadian dollar as the Portfolio Adviser deems appropriate.

A disciplined portfolio construction and risk management process will be utilized. Capital is allocated based on the Portfolio Adviser's assessment of anticipated market opportunities and expected risk reward profile. The Fund's portfolio is monitored and rebalanced intra-day as appropriate using both qualitative and quantitative measures. In particular, the Fund's portfolio is reviewed under different stress testing scenarios. Liquidity, credit risk, currency exposure and various risk measures of the Fund's portfolio are calculated.

The Fund may also choose to:

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; and

- gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor’s income for tax purposes. There isn’t necessarily a relationship between the turnover rate and the Fund’s performance.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

The Fund has obtained relief from the Canadian securities regulators to invest up to: (i) 35% of the proportion of its net asset value then invested in evidences of indebtedness, taken at market value at the time of purchase, in evidences of indebtedness of any one issuer if those evidences of indebtedness are issued, or guaranteed fully as to principal and interest, by supranational agencies (as defined in NI 81-102) or governments other than the government of Canada, the government of a jurisdiction, or the government of the United States of America and are rated “AAA” by Standard & Poor’s, or have an equivalent rating by one or more other approved credit rating organizations; and (ii) 20% of the proportion of its net asset value then invested in evidences of indebtedness, taken at market value at the time of purchase, in evidences of indebtedness of any other issuer if those evidences of indebtedness are issued, or guaranteed fully as to principal and interest, by supranational agencies (as defined in NI 81-102) or governments other than the government of Canada, the government of a jurisdiction, or the government of the United States of America and are rated “AA” by Standard & Poor’s, or have an equivalent rating by one or more other approved credit rating organizations (such evidences of indebtedness are collectively referred to as Foreign Government Securities). The Fund will only invest in Foreign Government Securities that are traded on a mature and liquid market and where the acquisition of which is consistent with the fundamental investment objectives of the Fund. The risks associated with investing in Foreign Government Securities include concentration risk and foreign investment risk (see “Concentration risk” and “Foreign investment risk” on page 3 for a description of these risks and the strategies used by the Fund to minimize these risks).

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Capital depletion risk (Series T units only)
- Concentration risk
- Credit risk
- Currency risk
- Derivatives risk
- Exchange traded funds risk
- Foreign investment risk
- Inflation risk
- Interest rate risk
- Regulatory risk
- Securities lending, repurchase and reverse repurchase transactions risk

- Series risk
- Short selling risk

You may refer to pages 2 to 5 for descriptions of these risks.

### **WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for investors who seek regular income and the potential for capital growth and who want to share in the opportunities offered by high yielding debt securities issued by companies and countries from around the world.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is average risk and it is appropriate if you have a medium to long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com).

### **DISTRIBUTION POLICY**

For Series A, Series F and Series I units, distributions of net income, if any, are made monthly and distributions of net realized capital gains, if any, are made annually in December. Unless instructed otherwise, all distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per Unit of that series without any fee.

For Series T units, unitholders will receive a target monthly distribution of 6% per annum. The fixed monthly distribution amount will be reset at the beginning of each calendar year to provide an approximately 6% yield based on the net asset value per Series T unit as at December 31 of the prior year. Throughout the year, such monthly distributions to unitholders will be a combination of return of capital, net income and/or capital gains. The composition of the monthly distributions as among returns of capital, net income and capital gains will vary from month to month. Series T unit distributions, if any, are determined at the end of each month. Unless instructed otherwise, all distributions paid on Series T units will be paid in cash. The Manager reserves the right to adjust the distribution amount if deemed appropriate. There can be no assurance that Series T units will make any distributions in any particular month or months. Additional distributions of net income and distributions of net realized capital gains, if any are required, will be made annually in December.

Returns of capital do not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income". You should not draw any conclusions about the Fund's investment performance from the amount of this distribution.

Returns of capital will result in an encroachment upon your original capital and may result in the return to you of the entire amount of your original investment. A return of capital made to you is not immediately taxable, but will reduce the adjusted cost base (the "ACB") of your units. Where net reductions to the ACB of your units would result in the ACB becoming a negative amount, such amount would be treated as a capital gain realized by you and the ACB of your units will then be nil.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	24.09	74.15	126.84	270.99
<b>Series T (\$)</b>	58.65	180.59	309.02	660.73
<b>Series F (\$)</b>	15.68	48.68	83.98	183.40
<b>Series I (\$)</b>	5.13	16.08	28.03	62.94

Notes:

For each series of units of the Fund, the management expense ratio used in the above table is an annualized figure as Series A units, Series T units and Series F units were first distributed on August 5, 2010 and Series I units were first distributed on December 1, 2010. During the Fund's financial year ended December 31, 2010, the Manager absorbed a portion of the expenses of the Fund.

Had the Manager not absorbed certain expenses, (i) the expenses reflected in the above table in respect of Series A units (based on an annualized management expense ratio) would have been \$34.44 for one year, \$104.94 for three years, \$177.64 for five years and \$369.54 for ten years; (ii) the expenses reflected in the above table in respect of Series T units (based on an annualized management expense ratio) would have been \$85.19 for one year, \$259.54 for three years, \$439.32 for five years and \$913.66 for ten years; (iii) the expenses reflected in the above table in respect of Series F units (based on an annualized management expense ratio) would have been \$25.32 for one year, \$77.84 for three years, \$132.99 for five years and \$283.23 for ten years; and (iv) the expenses reflected in the above table in respect of Series I units (based on an annualized management expense ratio) would have been \$14.45 for one year, \$44.92 for three years, \$77.59 for five years and \$169.98 for ten years.

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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## SPROTT GOLD AND PRECIOUS MINERALS FUND

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### **FUND DETAILS**

Type of Fund:	Gold and Precious Minerals Fund
Date Started:	Series A: November 15, 2001 Series F: October 12, 2004 Series I: October 5, 2004
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

### **WHAT DOES THE FUND INVEST IN?**

#### ***Investment Objectives***

The investment objective of the Fund is to provide long-term capital growth. In order to achieve its investment objective, the Fund invests primarily in gold, gold certificates, precious metals and minerals, the certificates relating to such metals and minerals and/or in equity securities of companies that are directly or indirectly involved in the exploration, mining, production or distribution of gold and precious metals and minerals.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

#### ***Investment Strategies***

The principal investment strategy that this Fund uses in achieving its investment objective involves fundamental analysis to seek to identify securities with superior investment opportunities that have the potential for capital appreciation over the long-term. This involves seeking out undervalued companies backed by strong management teams and solid business models that can benefit from macro-economic trends. The Fund may also invest in gold, silver, platinum and palladium in the form of bullion, coins and storage receipts and certificates relating to such minerals and metals.

At times, the Fund may choose to temporarily invest in cash or cash equivalent securities as a defensive strategy or for other reasons.

The Fund deviates from the standard investment restrictions and practices of the Canadian securities regulators. It has obtained approval to invest: (i) directly and indirectly in certain commodities such as precious metals and minerals, and (ii) in excess of 10% of its net assets in gold or permitted gold certificates.

The Fund may also choose to:

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see “Securities lending, repurchase and reverse repurchase transactions risk” on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund’s investments and from exposure to foreign currencies; and

gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Commodity risk
- Concentration risk
- Currency risk
- Derivatives risk
- Exchange traded funds risk
- Foreign investment risk
- Inflation risk
- Liquidity risk
- Market risk
- Securities lending, repurchase and reverse repurchase transactions risk
- Series risk
- Short selling risk
- Small capitalization natural resource company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

### **WHO SHOULD INVEST IN THIS FUND?**

This Fund is suitable for those investors who want exposure to the capital appreciation potential of gold and precious metals and minerals and equity securities of companies that are involved in the exploration, mining, production or distribution of gold and precious metals and minerals.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is high risk and it is appropriate if you have a long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task

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***SPROTT GOLD AND PRECIOUS MINERALS FUND***

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Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com).

**DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December. All distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per unit of that series without any fee.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	34.65	105.54	178.63	371.40
<b>Series F (\$)</b>	23.68	72.92	124.79	266.88

Notes:

Series I units are not included in the table as no Series I units of the Fund have been issued and therefore their expenses are not yet known.

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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## SPROTT ENERGY FUND

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### **FUND DETAILS**

Type of Fund:	Energy Sector Fund
Date Started:	Series A: April 15, 2004 Series F: April 15, 2004 Series I: April 15, 2004
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

### **WHAT DOES THE FUND INVEST IN?**

#### ***Investment Objective***

The Fund seeks to achieve long-term capital growth. The Fund invests primarily in equity and equity-related securities of companies that are involved directly or indirectly in the exploration, development, production and distribution of oil, gas, coal, or uranium and other related activities in the energy and resource sector.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

#### ***Investment Strategies***

To achieve the Fund's investment objective, the Portfolio Adviser employs fundamental analysis to seek to identify superior investment opportunities with the potential for capital appreciation over the long-term. This is accomplished by seeking out undervalued companies backed by strong management teams and solid business models that can benefit from both industry and macro-economic trends.

The Fund may follow a more concentrated investment approach and, from time to time, over weight certain sub-sectors within the energy and resource sector, when deemed appropriate by the Portfolio Adviser. This may result in the Fund's portfolio weightings being substantially different from the weightings of the S&P/TSX Capped Energy Total Return Index (or its successor index). The Fund may be subject to pronounced cycles and widely varying conditions in the equity markets.

The Fund may also choose to:

- invest in and overweight cash and fixed income securities based on the market outlook for the energy sector;
- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; and

- gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor’s income for tax purposes. There isn’t necessarily a relationship between the turnover rate and the Fund’s performance.

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

#### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The unit value of the Fund will be affected by changes in the price of energy and energy-related natural resource commodities. These prices can change significantly as a result of supply and demand, speculation, and government and regulatory activities.

The Fund is also generally exposed to the following 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
- Substantial unitholder risk
- Tax risk

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***SPROTT ENERGY FUND***

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During 12 months preceding May 11, 2011, up to 11.0% of the net assets of the Fund were invested in Corridor Resources Inc.

As at April 29, 2011, Eric Sprott owned 11.24% of all the issued and outstanding units of the Fund.

You may refer to pages 2 to 5 for descriptions of these risks.

**WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for investors seeking long-term capital growth.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is high risk and it is appropriate if you have a long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com).

**DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December. All distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per unit of that series without any fee.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	37.21	113.06	190.86	394.24
<b>Series F (\$)</b>	26.34	80.91	138.09	293.31
<b>Series I (\$)</b>	26.65	81.83	139.62	296.32

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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## SPROTT GROWTH FUND

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### **FUND DETAILS**

Type of Fund:	Growth Fund
Date Started:	Series A: January 16, 2006 Series F: January 16, 2006 Series I: November 2, 2009
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

### **WHAT DOES THE FUND INVEST IN?**

#### ***Investment Objective***

The Fund seeks to achieve long-term capital growth by investing in growth-orientated equities. The Fund invests primarily in equity and equity-related securities of North American companies. The Fund may also invest in international companies. The Fund may also focus its assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

#### ***Investment Strategies***

To achieve the Fund's investment objective, the Portfolio Adviser employs fundamental analysis to seek to identify superior investment opportunities with the potential for above average capital appreciation over the long-term. This is accomplished by seeking out inefficiently priced companies backed by strong management teams and solid business models that can benefit from both industry and macro-economic trends. The Portfolio Adviser looks for exciting ideas and opportunities whose growth potential has yet to be realized. The portfolio will be positioned in accordance with the Portfolio Adviser's market view and primarily in Canadian equities and equity-related securities. Geographic and sector allocations will vary over time.

The Fund may follow a more concentrated investment approach and, from time to time, over weight certain geographic regions, including North America, and industry sectors such as the energy and resource sector and certain asset classes such as cash, gold and silver when deemed appropriate by the Portfolio Adviser. This may result in the Fund's portfolio weightings being substantially different from the weightings of the S&P/TSX Composite Total Return Index (or its successor index).

The Fund has obtained the approval of the Canadian securities regulators to permit the Fund to invest up to 20% of its net assets in gold or a permitted gold certificate and silver (or specified derivatives of which the underlying interest is gold or silver) at the time of investment.

The Fund may invest in debt securities as determined by the Portfolio Adviser provided that such investments comply with the investment restrictions and practices adopted by the Fund. The Fund may also choose other permitted investments when considered appropriate.

The Fund may also choose to:

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a

description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and

- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund’s investments and from exposure to foreign currencies; and
  - gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor’s income for tax purposes. There isn’t necessarily a relationship between the turnover rate and the Fund’s performance.

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

## **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Commodity risk
- 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

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***SPROTT GROWTH FUND***

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- Series risk
- Short selling risk
- Small capitalization natural resource company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

**WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for investors seeking long-term capital growth.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is high risk and it is appropriate if you have a long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to *invest@sprott.com*.

**DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December. All distributions paid to an investor will be reinvested automatically in additional units of the same Series of units of the Fund at the net asset value per unit of that Series without any fee.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	39.57	119.94	202.00	414.76
<b>Series F (\$)</b>	28.39	87.03	148.23	313.18
<b>Series I (\$)</b>	26.26	80.77	138.02	294.09

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund

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**SPROTT SHORT-TERM BOND FUND**

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**FUND DETAILS**

Type of Fund:	Canadian short-term fixed income fund
Date Started:	Series A: August 5, 2010 Series F: August 5, 2010 Series I: December 6, 2010
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 0.75% Series F: Up to 0.50% Series I: negotiated by the unitholder

**WHAT DOES THE FUND INVEST IN?*****Investment Objectives***

The Fund's objective is to provide a regular income while preserving capital and maintaining liquidity. The Fund invests primarily in short-term debt securities issued by Canadian federal, provincial and municipal governments as well as corporate issuers.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

***Investment Strategies***

To achieve the Fund's investment objectives, the Portfolio Adviser will employ investment strategies based upon:

- economic research,
- quantitative and technical analysis,
- the analysis of credit quality pertaining to prospective investments, and
- establishing an evolving asset allocation containing government and corporate bonds.

The Fund may invest a portion of its assets in short-term debt securities of foreign issuers. The Fund may also invest a portion of its assets in exchange-traded funds to gain exposure to the securities described herein.

The Fund may also choose to:

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:

- hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; and
- gain exposure to individual securities and markets instead of buying the securities directly (please see "Derivatives risk" on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor's income for tax purposes. There isn't necessarily a relationship between the turnover rate and the Fund's performance.

To the extent permitted by applicable securities legislation, the Fund may also engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. **The Fund will engage in short selling only when it is permitted by applicable securities legislation and will comply with the limits and conditions required by applicable securities legislation in connection with short selling.**

#### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Concentration risk
- Credit risk
- Currency risk
- Derivatives risk
- Exchange traded fund risk
- Foreign investment risk
- Inflation risk
- Interest rate risk
- Regulatory risk
- Securities lending, repurchase and reverse repurchase transactions risk
- Series risk
- Short selling risk

During the 12 months preceding May 11, 2011, up to 10.8% of the net assets of the Fund were invested in Epcor Utilities Inc.

You may refer to pages 2 to 5 for descriptions of these risks.

#### **WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for those investors who seek exposure to short-term high quality fixed income securities issued primarily by Canadian governments and companies.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is low risk and it is appropriate if you have a short term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that

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**SPROTT SHORT-TERM BOND FUND**

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other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com).

**DISTRIBUTION POLICY**

Distributions of net income, if any, are made monthly and distributions of net realized capital gains, if any, are made annually in December. Unless instructed otherwise, all distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per Unit of that series without any fee.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	6.66	20.87	36.33	81.24
<b>Series F (\$)</b>	8.51	26.60	46.22	102.85
<b>Series I (\$)</b>	0	0	0	0

Notes:

For each series of units of the Fund, the management expense ratio used in the above table is an annualized figure as Series A units and Series F units were first distributed on August 5, 2010 and Series I units were first distributed on December 6, 2010. During the Fund's financial year ended December 31, 2010, the Manager absorbed a portion of the expenses of the Fund. Having regard to the extent of the expenses absorbed by the Manager, and the short distribution period for the Series I units, the fund expenses indirectly borne by the investors for Series I units for the relevant periods resulted in zero dollars.

Had the Manager not absorbed certain expenses, (i) the expenses reflected in the above table in respect of Series A units (based on an annualized management expense ratio) would have been \$61.81 for one year, \$183.24 for three years, \$301.83 for five years and \$586.25 for ten years; (ii) the expenses reflected in the above table in respect of Series F units (based on an annualized management expense ratio) would have been \$60.99 for one year, \$180.96 for three years, \$298.31 for five years and \$580.59 for ten years; and (iii) the expenses reflected in the above table in respect of Series I units (based on an annualized management expense ratio) would have been \$15.68 for one year, \$48.68 for three years, \$83.98 for five years and \$183.40 for ten years.

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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**SPROTT SMALL CAP EQUITY FUND**

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**FUND DETAILS**

Type of Fund:	Canadian Small Cap Equity
Date Started:	Series A: August 23, 2007 Series F: August 23, 2007 Series I: November 2, 2009
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

**WHAT DOES THE FUND INVEST IN?*****Investment Objectives***

The objective of the Fund is to achieve long-term capital growth by investing primarily in small capitalization equity and equity-related securities listed in Canada, with some exposure to global small capitalization equities.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

***Investment Strategies***

To achieve the Fund's investment objective, the Portfolio Adviser employs an investment style which is a combination of value and growth. The Portfolio Adviser selects a broadly diversified portfolio of securities that it believes offer a good balance between reasonable valuations and attractive growth prospects relative to their peers. This Fund focuses on seeking out undervalued companies with strong management teams and financial strength.

The Fund's portfolio weighting may differ substantially from the weightings of the S&P/TSX SmallCap Total Return Index or its successor index.

The Fund's investments will include Canadian small capitalization equity and equity-related securities listed in Canada, with some exposure to global small capitalization equities. The Fund may also choose other permitted investments such as cash when considered appropriate.

The Fund may also choose to:

- invest in Canadian debt securities and foreign securities, provided such investments comply with the investment restrictions and practices adopted by the Fund. The Fund's aggregate exposure to foreign securities will not exceed approximately 35% (at the time of investment and on a cost basis) of its assets. The Fund may invest in debt securities primarily for defensive purposes;
- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:

- hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; and
- gain exposure to individual securities and markets instead of buying the securities directly (please see "Derivatives risk" on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor's income for tax purposes. There is not necessarily a relationship between the turnover rate and the Fund's performance.

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non "illiquid assets" (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund's total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund's assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

The Fund is generally exposed to the following risks:

- Commodity 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 company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

**WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for those investors seeking long-term capital growth wanting to share in the opportunities offered by the growth potential of equity securities of primarily small capitalization Canadian companies.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is above average risk and it is appropriate if you have a long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to *invest@sprott.com*

**DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December to the Fund's investors. All distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per unit of that series without any fee.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	36.59	111.26	187.93	388.81
<b>Series F (\$)</b>	25.63	78.76	134.53	286.26
<b>Series I (\$)</b>	23.17	71.38	122.21	261.72

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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**SPROTT ALL CAP FUND**

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**FUND DETAILS**

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Type of Fund:	Small-mid-large capitalization equity fund
Date Started:	Series A: September 18, 2008 Series F: September 18, 2008 Series I: November 2, 2009
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: Up to 2.5% Series F: Up to 1.5% Series I: negotiated by the unitholder

**WHAT DOES THE FUND INVEST IN?**

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***Investment Objectives***

The investment objective of the Fund is to achieve long-term capital growth by investing primarily in equities and equity-related securities of small, medium and large capitalized companies that have the potential to produce above average growth.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

***Investment Strategies***

To achieve the Fund's investment objective, the Portfolio Adviser utilizes an investment style which employs the GARP (growth at reasonable price) approach. The Portfolio Adviser primarily uses a bottom up screening process for companies and a top down sector analysis of the current economic environment to seek to compose a broadly diversified portfolio of stocks with superior fundamental characteristics. The Portfolio Adviser focuses on seeking out undervalued companies, with strong management teams, defined strategies, the potential for above average earnings, sales and cash flow.

The Fund's portfolio weighting may differ substantially from the weightings of the S&P/TSX Composite Total Return Index or its successor index.

The Fund has obtained relief from the Canadian securities regulators to permit the Fund to invest up to 20% of its net assets in gold or a permitted gold certificate and silver (or specified derivatives of which the underlying interest is gold or silver) at the time of investment.

The Fund's investments will include primarily small, medium and large cap Canadian companies. The Fund may also choose other permitted investments such as cash when considered appropriate.

The Fund may also choose to:

- invest in foreign securities that the Portfolio Adviser in its discretion determines, provided such investments comply with the investment restrictions and practices adopted by the Fund. The Fund's aggregate exposure to foreign securities will not exceed 49% (at the time of investment) of its assets;
- invest in debt securities primarily for defensive purposes;

- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see “Securities lending, repurchase and reverse repurchase transactions risk” on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund’s investments and from exposure to foreign currencies; and
  - gain exposure to individual securities and markets instead of buying the securities directly (please see “Derivatives risk” on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor’s income for tax purposes. There isn’t necessarily a relationship between the turnover rate and the Fund’s performance.

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non “illiquid assets” (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund’s total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund’s assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND**

The Fund is generally exposed to the following risks:

- Commodity risk
- 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 company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

### **WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for those investors seeking long-term capital growth wanting to share in the opportunities offered by the growth potential of equity securities of primarily small, medium and large capitalization Canadian companies.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is average risk and it is appropriate if you have a medium to long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com)

### **DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. The net investment income and the net realized capital gains of the Fund will be distributed annually in December to the Fund's investors. All distributions paid to an investor will be reinvested automatically in additional units of the same series of units of the Fund at the net asset value per unit of that series without any fee.

### **FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	43.46	131.23	220.16	447.62
<b>Series F (\$)</b>	32.60	99.50	168.75	352.70
<b>Series I (\$)</b>	28.62	87.82	149.74	317.20

Notes:

During the Fund's financial year ended December 31, 2010, the Manager absorbed a portion of the expenses of the Fund. Had the Manager not done so, (i) the expenses reflected in the above table in respect of Series A units would have been \$56.17 for one year, \$167.47 for three years, \$277.41 for five years and \$546.36 for ten years; (ii) the expenses reflected in the above table in respect of Series F units would have been \$44.49 for one year, \$134.19 for three years, \$224.89 for five years and \$456.05 for ten years; and (iii) the expenses reflected in the above table in respect of Series I units would have been \$42.99 for one year, \$130.11 for three years, \$218.79 for five years and \$447.49 for ten years.

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

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**SPROTT TACTICAL BALANCED FUND**

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**FUND DETAILS**

Type of Fund:	Tactical allocation
Date Started:	Series A: November 2, 2009 Series T: December 31, 2010 Series F: November 2, 2009 Series I: November 2, 2009 Series D <sup>1</sup> : January 16, 2009
Nature of Securities Offered:	Units of a mutual fund trust
Registered Tax Plan Status:	Qualified investment for registered tax plans
Management Fees:	Series A: 2.25% Series T: 2.25% Series F: 1.25% Series I: negotiated by the unitholder Series D: 2.25%

<sup>1</sup> Series A units prior to November 2, 2009.

**WHAT DOES THE FUND INVEST IN?*****Investment Objectives***

The objective of the Fund is to seek to provide a total return over the long term by investing primarily in a portfolio of mutual funds that are managed by the Manager, its associates or its affiliates. The Fund may also invest in gold bullion, exchange traded funds and equity and/or fixed income securities.

**Unitholder approval is required prior to a change in the fundamental investment objective of the Fund.**

***Investment Strategies***

To achieve these objectives, the Fund employs a flexible and opportunistic investment approach that has the potential to perform well in a variety of market environments. The Fund seeks total return over the long-term. Total return includes capital gains, interest and dividends.

The Portfolio Adviser expects to allocate the Fund's assets among the following asset classes according to the approximate ranges set out below. Such ranges are designed to allow the Portfolio Adviser to vary the weighting of the Fund's portfolio within the asset classes to provide the Portfolio Adviser with the flexibility to meet the investment objectives as it considers appropriate in a variety of market environments.

<b>Asset Class</b>	<b>Range</b>
Equity funds	40% - 60%
Fixed-income funds	25% - 45%
Gold bullion funds	0% - 10%
Tactical investments (exchange traded funds, direct investments in gold bullion, equity and/or fixed-income securities and use of derivatives)	0% - 20%

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**SPROTT TACTICAL BALANCED FUND**

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The Portfolio Adviser may, in its sole discretion, change the permitted ranges and/or add or remove one or more underlying asset classes in order to meet the Fund's investment objective.

The Fund may also choose to:

- invest in short-term debt securities or cash for operational purposes, such as maintaining liquidity to accommodate redemption requests and to rebalance its holdings in underlying funds;
- engage in securities lending as permitted by securities regulations to seek to generate additional income (please see "Securities lending, repurchase and reverse repurchase transactions risk" on page 4 for a description of securities lending, repurchase and reverse repurchase transactions and the strategies used by the Fund to minimize the risks associated with these transactions); and
- use derivative instruments, such as options, futures, forward contracts and swaps, for both hedging and non-hedging strategies, in a manner which is consistent with the investment objective of the Fund and as permitted by the Canadian securities administrators, including to:
  - hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; and
  - gain exposure to individual securities and markets instead of buying the securities directly (please see "Derivatives risk" on page 3 for more information on the risks associated with the use of derivatives).

Portfolio turnover rates of the Fund vary from year to year. A higher portfolio turnover rate in a year will result in greater trading costs payable by the Fund, and a greater chance that an investor will receive a distribution that must be included in a taxable investor's income for tax purposes. There isn't necessarily a relationship between the turnover rate and the Fund's performance.

The Fund has obtained relief from the Canadian securities regulators to invest in certain BetaPro ETFs. The BetaPro ETFs are commodity pools that use financial instruments that correlate to a multiple (or inverse multiple) of the performance of an underlying index. The Fund will only invest in BetaPro ETFs that provide exposure to securities that are consistent with the investment objectives and strategies of the Fund. Furthermore, the Fund will not invest in BetaPro ETFs that are exposed to physical commodities other than gold.

The Fund has obtained relief from the Canadian securities regulators to engage in short selling. Generally speaking, short selling can provide the Fund with opportunities for gains when markets are volatile or declining. While short selling will only be used by the Fund as a complement to its primary investment strategy (discussed above), the Portfolio Adviser will utilize the same fundamental analysis in determining whether securities of a particular issuer should be sold short. When the analysis produces a favourable outlook, the investment opportunity is considered for purchase. When the analysis produces an unfavourable outlook, the investment opportunity is considered for a short sale. The Fund will engage in short selling only within certain limits and conditions including: (i) the Fund will short sell only non "illiquid assets" (as such term is defined under NI 81-102) that are traded on a stock exchange or bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer, (ii) the Fund will limit its short sale exposure to any single issuer to 5% of the Fund's total net assets and its aggregate short exposure to 20% of its total net assets, (iii) the Fund will hold cash cover in an amount (including the Fund's assets deposited with lenders) that is at least 150% of the aggregate market value of all securities sold short, and (iv) the Fund will deposit collateral only with lenders which are regulated financial institutions or registered dealers in Canada.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

Since the Fund invests primarily in securities of other mutual funds, the risks of investing in the Fund include both the risks of investing in the Fund and the risks of investing in the underlying funds, which the Fund takes on in proportion to its investment in the underlying funds. The Fund is generally exposed to the following risks:

- Capital depletion risk (Series T only)
- Commodity risk

- Concentration risk
- Credit risk
- Currency risk
- Derivatives risk
- Exchange traded fund 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 company risk
- Small capitalization natural resource company risk
- Tax risk

You may refer to pages 2 to 5 for descriptions of these risks.

### **WHO SHOULD INVEST IN THIS FUND?**

The Fund is suitable for those investors seeking long-term capital growth.

In accordance with the methodology recommended by the Task Force described below, the risk rating assigned to this Fund is average risk and it is appropriate if you have a medium to long-term investment horizon.

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. Our determination of the risk rating for the Fund is guided by the methodology recommended by the Task Force. The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a Fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, the Fund's historical volatility may not be indicative of its future volatility.

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

The method that we use to identify the investment risk level of the Fund is available on request, at no cost, by calling us at 1-866-299-9906 or by sending an email to [invest@sprott.com](mailto:invest@sprott.com).

### **DISTRIBUTION POLICY**

In each calendar year, the Fund will distribute to its investors a sufficient amount of the Fund's net investment income and net realized capital gains so that the Fund will not pay any income tax. For Series A, Series F, Series I and Series D units, the net investment income and the net realized capital gains of the Fund will be distributed annually in December to investors of such units. All distributions paid to an investor in such units of the Fund will be reinvested automatically in additional units of the Fund at the net asset value per unit of that series without any fee.

For Series T units, unitholders will receive a target monthly distribution of 6% per annum. The fixed monthly distribution amount will be reset at the beginning of each calendar year to provide an approximately 6% yield based on the net asset value per Series T unit as at December 31 of the prior year. Throughout the year, such monthly distributions to unitholders will be a combination of return of capital, net income and/or capital gains. The composition of the monthly distributions as among returns of capital, net income and capital gains will vary from month to month. Series T unit distributions, if any, are determined at the end of each month. Unless instructed otherwise, all distributions paid on Series T units will be paid in cash. The Manager reserves the right to adjust the

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**SPROTT TACTICAL BALANCED FUND**

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distribution amount if deemed appropriate. There can be no assurance that Series T units will make any distributions in any particular month or months. Additional distributions of net income and distributions of net realized capital gains, if any are required, will be made annually in December.

Returns of capital do not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income". You should not draw any conclusions about the Fund's investment performance from the amount of this distribution.

Returns of capital will result in an encroachment upon your original capital and may result in the return to you of the entire amount of your original investment. A return of capital made to you is not immediately taxable, but will reduce the adjusted cost base (the "ACB") of your units. Where net reductions to the ACB of your units would result in the ACB becoming a negative amount, such amount would be treated as a capital gain realized by you and the ACB of your units will then be nil.

**FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

The information below is intended to help investors compare the cost of investing in the Fund with the cost of investing in other mutual funds. Mutual funds pay certain expenses out of fund assets. Although investors do not pay these expenses directly, in actuality, they have the effect of lowering the Fund's returns.

This table outlines a hypothetical example of the investor's cumulative proportional share of the fees and expenses paid by the Fund, in dollars, over the time periods indicated and assuming: 1) an initial investment of \$1,000 in the Fund; 2) a total annual 5% return of the Fund in each period; 3) the same management expense ratio and operating expense in all periods as were paid by the Fund in its last financial year; and 4) an incentive fee based on a total annual 5% return of the Fund in its last financial year.

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>Series A (\$)</b>	53.71	160.53	266.56	528.22
<b>Series F (\$)</b>	42.13	127.38	213.98	436.52
<b>Series D (\$)</b>	51.76	155.01	257.90	513.54

Notes:

Series I units are not included in the table as no Series I units of the Fund have been issued and therefore their expenses are not yet known. Series T units are not included in the table as no Series T units of the Fund have been issued since the last completed financial year of the Fund and therefore their expenses for this period are unknown.

During the Fund's financial year ended December 31, 2010, the Manager absorbed a portion of the expenses of the Fund. Had the Manager not done so, (i) the expenses reflected in the above table in respect of Series A units would have been \$76.36 for one year, \$223.10 for three years, \$362.21 for five years and \$679.12 for ten years; (ii) the expenses reflected in the above table in respect of Series F units would have been \$65.70 for one year, \$194.03 for three years, \$318.36 for five years and \$612.49 for ten years; and (iii) the expenses reflected in the above table in respect of Series D units would have been \$74.21 for one year, \$217.28 for three years, \$353.51 for five years and \$666.26 for ten years.

See "Fees and Expenses" on page 12 for more information about the costs of investing in the Fund.

**Additional information about the Funds is available in the Funds' Annual Information Form, Fund Facts (once available), Management Reports of Fund Performance and Financial Statements. These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as a part of this document.**

**You can get a copy of these documents, at your request, and at no cost, by calling toll free 1-866-299-9906, or from your dealer, or via email at [invest@sprott.com](mailto:invest@sprott.com).**

**These documents and other information about the Funds, such as information circulars and material contracts, are also available on the Internet site of SEDAR (the System for Electronic Document Analysis and Retrieval) at [www.sedar.com](http://www.sedar.com).**

**Sprott Canadian Equity Fund**

**Sprott Diversified Yield Fund**

**Sprott Gold and Precious Minerals Fund**

**Sprott Energy Fund**

**Sprott Growth Fund**

**Sprott Short-Term Bond Fund**

**Sprott Small Cap Equity Fund**

**Sprott All Cap Fund**

**Sprott Tactical Balanced Fund**

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