Sprott Asset Management

December Market Comment

Sprott Growth Fund

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We are pleased with the first year of the Sprott Growth Fund ("Fund"). While it was a difficult and volatile year, the positives outweighed the negatives. The Fund ended the month of December with a net asset value of $12.0862 per unit (Series A).

On the plus side, the Growth Fund participated in the commodity-led rally. We had an overweight position in oils in the first half of the year, and supplemented that with select base metals holdings for much of the year. Blue Pearl, for example, was the largest position in the Fund for much of the fourth quarter and was also the best performing stock on the S&P/TSX index in 2006. Petrolifera Petroleum enjoyed immense success in Argentina, and was a big holding prior to our reducing the holding in the third and fourth quarter.

Also on the plus side, the Fund's shift into technology and biotechnology prior to the fourth quarter proved to be particularly timely. Massive sector rotation saw the Nasdaq market have a huge gain in the fourth quarter, and holdings such as Seachange International, COM DEV International, Adobe Systems and Akamai Technology fully participated in the rally. All except the latter are still held in the Fund. In biotech, a sector that has been out of favour for four years, we benefited from several holdings including Biovail, now the largest-yielding stock on the TSX, Theratechnologies, which reported positive Phase III clinical data in the fourth quarter (causing the stock to more than triple in three weeks), and Omrix Biopharmaceuticals, which boosted earnings guidance and is currently the largest position in the Fund.

As we discussed in prior quarterly comments, the merger and acquisition theme continued to be a dominant focus of the Fund. We lost count of the number of takeovers on the year, but notables included Viceroy Exploration, Afriore, Netopia Inc., Desert Sun Mining and Intermagnetics General. We continue to target select acquisition candidates across sectors, and have high hopes for Aurelian Resources, Force Protection, Cardiome Pharma and Advanaced Magnetics to be potential targets.

On the negative side, there were also some disappointments on the year. The biggest perhaps was the non-takeover of Skye Resources. This company could not attract a buyer and chose instead to raise money and proceed with its nickel mine development on its own. Ceradyne was a very large holding in the Fund earlier in the year, but was sold too early and we did not benefit from the stock's big fourth quarter rally.

Going forward, we have further diversified the Fund away from resources. We expect resource names to do well later in the year, but are concerned about a short-term liquidity trap in the sector. We are not exiting completely, just refocusing the Fund on the fastest growing companies and takeover candidates. We expect equity markets to be volatile until the 2007 corporate earnings picture becomes clearer, or US interest rates get cut.

Please note that in accordance with National Instrument 81-102, we will not publish the returns for this fund until it is one year old.

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