

**SPROTT INC.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**

This Management's Discussion & Analysis ("MD&A") of Financial Condition and Results of Operations presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of June 30, 2010 compared with December 31, 2009, and the results of operations for the three and six month periods ended June 30, 2010 compared with the corresponding periods in 2009.

The Company was incorporated under the *Business Corporations Act* (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI"). On May 8, 2008, the Company filed a prospectus in each of the provinces and territories of Canada in respect of an initial public offering of 20,000,000 common shares to be effected via a secondary offering by certain shareholders of the Company ("the Offering").

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three and six months ended June 30, 2010 and 2009 and the notes thereto and with the audited consolidated financial statements as at December 31, 2009 and for the year then ended, including the notes thereto and the related MD&A.

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") requiring estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of these statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates as a result of various factors.

**Forward Looking Statements**

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those listed in the "Risk Factors" section of the Company's annual information form dated March 30, 2010 (the "AIF"). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of the date of this MD&A and will not be updated or revised except as required by applicable securities law.

**Non-GAAP Financial Measures**

We measure the success of our business using a number of key performance indicators that are not measurements in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP financial measures do not

have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Our key performance indicators include:

#### *Assets Under Management*

Assets Under Management or AUM refers to the total assets of our public mutual funds, hedge funds, offshore funds and bullion funds (the “Funds”) and managed accounts, which includes the companies managed by SCLP (“Managed Accounts”) less total liabilities, on which management fees (“Management Fees”) or performance fees (“Performance Fees”) are calculated. We believe that AUM is an important measure as we earn Management Fees, calculated as a percentage of AUM, and may earn Performance Fees, calculated as a percentage of: (i) our Funds’ and Managed Accounts’ excess performance over the relevant benchmark; (ii) the increase in net asset values of our Funds over a predetermined hurdle, if any; or (iii) the net profit in our Funds over the performance period. We monitor the level of our AUM because they drive our level of Management Fees. The amount of Performance Fees we earn is related to both our investment performance and our AUM.

#### *Investment Performance (Market Value Appreciation (Depreciation) of Investment Portfolios)*

Investment performance is a key driver of AUM. Our investment track record through varying economic conditions and market cycles has been and will continue to be an important factor in our success. Growth in AUM resulting from positive investment performance increases the value of the assets that we manage for our clients and we, in turn, benefit from higher fees. Alternatively, poor absolute and/or relative investment performance will likely lead to a reduction in our AUM and, hence, our fee revenue.

#### *Net Sales*

AUM fluctuates due to a combination of investment performance and net sales (gross sales net of redemptions). Net sales, together with investment performance and Fund expenses, determine the level of AUM which, as discussed above, is the basis on which Management Fees are charged and to which Performance Fees may be applied.

#### *EBITDA*

Our method of calculating EBITDA is defined as earnings before interest expense, income taxes, amortization of fixed assets, amortization of deferred sales charges and stock-based non-cash compensation. We believe that this is an important measure as it allows us to assess our ongoing business without the impact of interest expense, income taxes, amortization and non-cash compensation, and is an indicator of our ability to pay dividends, invest in our business and continue operations. EBITDA is a measure commonly used in the industry by management, investors and investment analysts in understanding and comparing results by factoring out the impact of different financing methods, capital structures, the amortization of deferred sales charges and income tax rates between companies in the same industry. While each company may not utilize the same method of calculating EBITDA as we do, we believe it enables a better comparison of the underlying operations of comparable companies and we believe that it is an important measure in assessing our ongoing business operations.

### *Base EBITDA*

“Base EBITDA” refers to EBITDA after adjusting for: (i) the exclusion of any gains (losses) on our proprietary investments including our initial contributions to our Funds on their inception, as if such gains (losses) had not been incurred and (ii) Performance Fees and Performance Fee-related bonuses. Management Fees are earned throughout the year. With the exception of Performance Fees attributable to redeemed units (termed as “Crystallized Performance Fees”), Performance Fees are earned on the last day of the fiscal year. Performance Fees are not as predictable and stable as Management Fees and therefore Base EBITDA enables us to evaluate the day-to-day results of operations throughout the year and is meaningful for the same reason.

This measure also allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as income or losses relating to our investment in proprietary investments.

We believe that these adjustments are necessary for a more meaningful presentation of our results of operations.

### **Overview**

The Corporation operates through three wholly-owned subsidiaries, Sprott Asset Management LP (“SAM LP”), Sprott Private Wealth LP (“SPW LP”) and Sprott Consulting LP (“SCLP”). Through these three partnerships, the Corporation is an independent asset management company dedicated to achieving superior returns for our clients over the long term. Our business model is based foremost on delivering excellence in investment management services to our clients.

On June 1, 2009 we completed a corporate reorganization of SAMI whereby SAMI was dissolved and its operations were separated into three business lines: discretionary portfolio management by SAM LP, broker-dealer services by SPW LP, and consulting services by SCLP. The reorganization had no impact on the consolidated financial statements. SAM LP is a portfolio manager (“PM”) and exempt market dealer (“EMD”). SPW LP is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”). SCLP provides management, administrative and consulting services to other companies. Currently SCLP provides these services to Sprott Resource Corp, Sprott Power Corp. and to One Earth Farms Corp.

Subsequent to this corporate reorganization, the majority of the Corporation’s revenues are earned through SAM LP in the form of Management Fees and Performance Fees earned through the management of the Funds and Managed Accounts; SPW LP earns most of its revenues via intercompany trailer fee payments from SAM LP (these intercompany fees are eliminated on consolidation). SPW LP provides us with a competitive advantage by providing a unique distribution channel for our Fund products; as well, it serves as a platform to brand and grow our wealth management business. SCLP enables us to benefit from our expertise in managing other companies, both public and private.

While we operate through three principal operating companies, all three are focused on growing the AUM of the Funds and Managed Accounts that we manage for the benefit of the unitholders, shareholders and partners of those entities and thus for the benefit of our shareholders.

### *Key Performance Drivers*

Our key performance indicators are:

- AUM
- Performance of our Funds and Managed Accounts
- Net sales (sales less redemptions) of our Funds and Managed Accounts
- EBITDA and Base EBITDA

The most significant factor that drives our business results continues to be the performance of the assets that we manage. Absolute returns generate growth in AUM, and hence Management Fees while absolute and/or relative returns may result in the receipt of Performance Fees. While there are many factors that influence sales and redemptions of our Funds and certain Managed Accounts such as general investor sentiment towards certain asset classes and the global economic environment, past investment returns play an important part in an investment decision to buy, hold or sell a particular investment product.

The Company derives revenue primarily from Management Fees earned from the management of our Funds and Managed Accounts and from Performance Fees earned from the investment of the AUM of our Funds and Managed Accounts. Our Management Fees are calculated as a percentage of AUM. Our Performance Fees are calculated as a percentage of the return earned by our Funds and Managed Accounts. Accordingly, the growth in our fees is based on both the growth in AUM and the absolute or relative return, as applicable, earned by our Funds and Managed Accounts. As at June 30, 2010, we managed approximately \$5.5 billion in assets among our various Funds and Managed Accounts.

Management Fees are less variable and more predictable than Performance Fees. Management Fees are generally closely correlated with changes in AUM. However, the rate of change in our Management Fees may not exactly mirror the rate of change in our AUM, primarily a result of two factors. First, multi-series or multi-class structures are offered in some of our Funds whereby the Management Fee differs among the applicable series or classes. Second, mutual Funds have the highest rate of Management Fees, followed by hedge Fund and offshore Fund Management Fees, while bullion Funds have the lowest rate of Management Fees. Fees for managing the various Managed Accounts, including the companies managed by SCLP are negotiated on a case by case basis. Therefore, the balance of AUM among our various Funds and Managed Accounts impacts Management Fees as a percentage of AUM.

Performance Fees for most of our Funds and Managed Accounts are determined as of December 31 each year. However, Performance Fees are accrued in the relevant Funds and Managed Accounts, as applicable, to properly reflect the Performance Fee that would be payable, if any, based on the Net Asset Value of that Fund or Managed Account. Where an investor redeems a domestic hedge Fund or an offshore Fund, any Performance Fee attributable to those units redeemed is paid to SAM LP as manager of the Funds (“Crystallized Performance Fees”). These Crystallized Performance Fees, as well as the related allocation to the employee bonus pool, are accrued for in the financial statements of SAM LP for the appropriate month.

Our most significant expenses include compensation and benefits and trailer fees. With respect to compensation and benefits, employees are paid a base salary and may be eligible to share in a

bonus pool, with the size of such discretionary bonuses being tied directly to individual performance and the overall financial performance of the Company. Trailer fees are paid to dealers that distribute units of a Fund. Such dealers may receive a trailer fee (annualized but paid monthly or quarterly) of up to 1% of the value of the assets held in the respective Fund by the dealer's clients. Both the employee bonus pool component of compensation and trailer fees are correlated with Management Fees. Changes in levels of trailer fees are generally a reflection of changes in domestic Fund sales through the advisor and dealer channel as well as changes in Management Fees. We do not pay trailer fees on certain series/classes of domestic mutual Funds and hedge Funds nor on our offshore hedge Funds.

Last year we introduced a low load sales charge option for some of our funds. Sales under this option have not been significant to date and the commissions have been financed from internal cash flow. Other expenses incurred by our business are general and administration costs, including sales and marketing costs, occupancy, regulatory and professional fees as well as charitable donations and amortization.

### **Financial Highlights**

Financial highlights for the three and six months ended June 30, 2010 were:

- AUM at June 30, 2010 were approximately \$5.5 billion. This reflects an increase of \$0.4 billion from \$5.1 billion at March 31, 2010 and an increase of \$1.1 billion from the \$4.4 billion of AUM at June 30, 2009. Average AUM in the second quarter of 2010 was approximately \$5.4 billion as compared to approximately \$4.5 billion in the second quarter of 2009, an increase of 20.1%. In the second quarter of 2010, market values increased by \$0.3 billion, along with the positive net subscriptions of \$0.1 billion, resulting in an overall increase in AUM of \$0.4 billion.
- Management Fees for the quarter and six months ended June 30, 2010 were \$24.2 million and \$47.5 million, respectively, representing an increase of approximately \$2.5 million (11.7%) and \$3.2 million (7.2%) over the corresponding periods in 2009.
- During the first quarter, we successfully launched Sprott Physical Gold Trust and the Sprott 2010 Flow-Through LP. During the second quarter of 2010, we completed a follow-on offering of Sprott Physical Gold Trust units and launched the Sprott Private Credit Fund. In aggregate, net proceeds from these new Fund launches were \$0.8 billion
- Base EBITDA for the quarter and six months ended June 30, 2010 was \$10.3 million and \$20.6 million respectively, compared to \$7.6 million and \$15.7 million in the quarter and six months ended June 30, 2009.
- Net income for the quarter ended June 30, 2010 increased by 37.3% to \$7.7 million (\$0.05 per share) from \$5.6 million (\$0.04 per share) for the corresponding quarter in 2009. Net income for the six months ended June 30, 2010 was \$13.6 million (\$0.09 per share), a 4.5% increase over \$13.0 million (\$0.09 per share) for the six months ended June 30, 2009.

## Summary Balance Sheet

(In \$ 000's,)	June 30, 2010	December 31, 2009
Total Assets	<b>101,237</b>	97,694
Total Liabilities	<b>23,862</b>	21,554
Shareholders' Equity	<b>77,375</b>	76,140

## Summary Income Statement

(In \$ 000's, except per share amounts)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
<b>Revenue</b>				
Management fees	24,212	21,673	47,460	44,269
Crystallized performance fees	196	405	196	2,215
Unrealized and realized gains on proprietary investments	1,132	767	235	2,910
Other income	1,244	247	4,155	354
<b>Total revenue</b>	<b>26,784</b>	23,092	<b>52,046</b>	49,748
<b>Expenses</b>				
Compensation and benefits	7,534	7,114	15,801	14,813
Trailer fees	5,143	4,831	10,213	9,420
General and administration	2,974	2,794	5,585	5,834
Donations	171	292	629	576
Amortization	186	223	358	439
<b>Total expenses</b>	<b>16,008</b>	15,254	<b>32,586</b>	31,082
Income before income taxes	10,776	7,838	19,460	18,666
Provision for income taxes	3,100	2,248	5,859	5,655
<b>Net income and comprehensive income for the period</b>	<b>7,676</b>	5,590	<b>13,601</b>	13,011
Other expenses (1)	788	797	1,547	1,587
Provision for income taxes	3,100	2,248	5,859	5,655
<b>EBITDA</b>	<b>11,564</b>	8,635	<b>21,007</b>	20,253
Unrealized and realized gains on proprietary investments	(1,132)	(767)	(235)	(2,910)
Performance fees net of performance fee related bonus pool (2)	(147)	(304)	(147)	(1,661)
<b>Base EBITDA</b>	<b>10,285</b>	7,564	<b>20,625</b>	15,682
<b>Net Income Per Share – basic</b>	<b>.05</b>	.04	<b>.09</b>	.09
<b>Net Income Per Share—fully diluted</b>	<b>.05</b>	.04	<b>.09</b>	.09

(1) Includes amortization of fixed assets, amortization of deferred sales charges and non-cash stock-based compensation expense.

(2) Performance Fee related bonus pool is equal to 25% of Performance Fee Revenue.

## **Results of Operations**

*Three and six months ended June 30, 2010 compared to three and six months ended June 30, 2009*

### **Overall Performance**

At June 30, 2010, AUM were approximately \$5.5 billion as compared with \$4.4 billion at June 30, 2009 and \$5.1 billion at March 31, 2010. In the second quarter of 2010, net subscriptions in the Funds and Managed Accounts were \$0.1 billion along with the market value increases of \$0.3 billion, resulting in the net \$0.4 billion increase in AUM.

Monthly average AUM for the quarter and six months ended June 30, 2010 was \$5.4 billion and \$5.1 billion respectively compared with \$4.5 billion and \$4.6 billion in the comparative prior year periods.

Management Fees for the quarter and six month period ended June 30, 2010 were \$24.2 million and \$47.5 million, respectively, representing an increase of \$2.5 million (11.7%) and \$3.2 million (7.2%) over the corresponding periods in 2009. This increase was driven by higher average AUM. Unrealized and realized gains on proprietary investments were \$0.4 million higher for the quarter but were lower by \$2.7 million for the six month period ended June 30, 2010 as compared to the corresponding periods in 2009. Other income increased significantly for the quarter and six month period ended June 30, 2010 by \$1.0 million and \$3.8 million respectively as compared to the quarter and six-month period ended June 30, 2009. Crystallized performance fees for the quarter and six months ended June 30, 2010 were \$0.2 million and \$2.1 million lower than the corresponding periods in 2009. Total revenues for the quarter and six months of 2010 increased by \$3.7 million or 16.0% and \$2.3 million or 4.6% as compared with the corresponding quarter and six months of 2009.

Expenses totaled \$16.0 million and \$32.6 million for the quarter and six months ended June 30, 2010, which is an increase of \$0.8 million or 5.0% and \$1.5 million or 4.8% respectively as compared with the quarter and six months ended June 30, 2009. The increase is mainly attributable to an increase in compensation and benefits and in trailer fees, as described in greater detail later in this MD&A.

Net income of \$7.7 million and \$13.6 million for the quarter and six months ended June 30, 2010 compares with net income of \$5.6 million and \$13.0 million for the quarter and six months ended June 30, 2009 an increase of \$2.1 million or 37.3% and \$0.6 million or 4.5%, respectively. The increase in the Management Fees and revenue from the selling commissions more than offset the modest increase in the trailers and variable commission expenses, resulting in the increase in net income particularly for the quarter but also for the first six months of 2010 as compared with the corresponding periods in the prior year.

Assets Under Management, Investment Performance and Net Sales

The breakdown of AUM by investment product type as at June 30, 2010 and June 30, 2009 was as follows:

<b>Product Type</b>	<b>June 30, 2010</b>		<b>June 30, 2009</b>	
	<b>\$ (in millions)</b>	<b>% of AUM</b>	<b>\$ (in millions)</b>	<b>% of AUM</b>
Mutual Funds	2,263	40.8%	1,840	41.4%
Domestic Hedge Funds	1,371	24.7%	1,551	34.9%
Offshore Funds	520	9.4%	564	12.7%
Bullion Funds	918	16.6%	75	1.7%
Managed Accounts	474	8.5%	414	9.3%
<b>Total</b>	<b>5,546</b>	<b>100%</b>	<b>4,444</b>	<b>100%</b>

The table below summarizes the changes in AUM for the relevant periods.

<i>\$ millions</i>	<b>Three months ended June 30, 2010</b>	<b>Three months ended June 30, 2009</b>	<b>Six months ended June 30, 2010</b>	<b>Six months ended June 30, 2009</b>
AUM, beginning of quarter	5,155	4,725	4,774	4,449
Net sales (redemptions)	104	(43)	521	(251)
Market value appreciation (depreciation) of portfolios	287	(238)	251	246
AUM, end of quarter	5,546	4,444	5,546	4,444

Performance of our Funds and Managed Accounts for the quarter and six months resulted in AUM increasing by \$287 million or 5.6% and \$251 million or 5.3% respectively of opening AUM as most of our Funds generated positive performance. Gold (in USD) gained approximately 11.6% over the quarter to close above US \$1,240 per ounce. As a result, a number of our Funds performed well including the Sprott Gold Bullion Fund, the Sprott Physical Gold Trust and the Sprott Gold and Precious Minerals Fund. Most of our domestic and offshore hedge Funds also posted strong performance results for the quarter and six months to June 30, 2010.

Net sales for the quarter and six months were \$104 million and \$521 million, respectively. The launch of Sprott Private Credit Fund and the follow-on offering of the Sprott Physical Gold Trust added \$288 million to sales for the quarter. Sprott Physical Gold Trust, Sprott 2010 Flow-Through LP and Sprott Private Credit Fund added \$780 million to sales for the first six months of 2010. Collectively our other mutual Funds and hedge Funds experienced net redemptions of approximately \$135 million and \$202 million for the quarter and the six month period ended June 30, 2010. Some of our offshore Funds had net subscriptions while others experienced net redemptions, resulting in net outflows of approximately \$6 million or 1.3% and approximately \$11 million or 2.1% for the quarter and six months, respectively, of opening offshore AUM. One

of our Managed Accounts essentially completed a full redemption during the quarter, thereby decreasing Managed Accounts by approximately \$43 million and \$46 million for the quarter and six month periods ended June 30, 2010.

### Revenue

Total revenue increased by \$3.7 million (16.0%) from \$23.1 million to \$26.8 million in the second quarter of 2010 and increased by \$2.3 million (4.6%) from \$49.7 million to \$52.0 million in the six month period ended June 30, 2010 compared with the corresponding periods in 2009.

Management Fees for the second quarter of 2010 increased by \$2.5 million or 11.7% to \$24.2 million from \$21.7 million in the second quarter of 2009, as monthly average AUM for the quarter increased by approximately 20.1% over the same period. Management Fee margins (defined as Management Fees as a percentage of average AUM) fell to 1.79% from 1.92% in the second quarter of 2009. Management Fees for the six month period increased by \$3.2 million or 7.2% to \$47.5 million from \$44.3 million during the corresponding six month period of 2009, as monthly average AUM for the quarter increased by approximately 12.7% over the same period. Management Fee margins (defined as Management Fees as a percentage of average AUM) fell to 1.85% from 1.94% in the six month period ended June 30, 2009. The decrease is mainly due to an increase of approximately \$0.4 billion (for the quarter) and \$0.8 billion (for six months) in the assets of bullion Funds, which have lower management fees than most of our other Funds.

Crystallized Performance Fees were \$ 0.2 million for three and six months ended June 30, 2010 due to Performance Fees accrued by the Funds resulting in crystallization at the time of redemptions from these Funds. During the corresponding quarter and six months of 2009, Crystallized Performance Fees were \$0.4 million and \$2.2 million, respectively, resulting from higher redemptions and strong performance of the Funds in those three and six month periods.

Proprietary investments at June 30, 2010 comprise of investments in various public and private equities, investments in various Funds managed by SAM LP, gold bullion and an investment in a secured note receivable and equity purchase warrants.

Gains from proprietary investments (realized and unrealized) in the quarter and six months ended June 30, 2010 totaled \$1.1 million and \$0.2 million, respectively, as compared with the gains of \$0.8 million and \$2.9 million for the quarter and six months ended June 30, 2009. The gains in the quarter and six months ended June 30, 2010 were mainly driven by the increase in the value of gold bullion and realized gains from the sale of publicly traded equities in the gold sector despite a decline in the value of the equity warrants, whereas gains in the quarter and six months ended June 30, 2009 was due to appreciation of the Company's investment in Cadomin Capital Corporation<sup>1</sup>, gold bullion and certain other publicly traded equities in the gold sector.

Other income increased by \$1.0 million to \$1.2 million for the quarter and by \$3.8 million to \$4.2 million for the six months ended June 30, 2010 compared with the corresponding period in 2009. The increase in the current quarter is mainly due to higher commissions earned by SPW LP and interest earned on the secured note. Similarly the increase in the six months ended June 30, 2010 is mainly due to \$2.8 million of commissions earned by SPW LP on the sale of units of Sprott Power Corporation, Sprott Flow-Through LP and Sprott Physical Gold Trust to SPW LP clients along with interest earned on the secured note.

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<sup>1</sup> Formerly Sprott Molybdenum Participation Corporation. Refer to Note 5(a) in the unaudited interim financial statements for further details.

## Expenses

Total expenses for the three and six month period ended June 30, 2010 were \$16.0 million and \$32.6 million, respectively, an increase of 5.0% and 4.8%, respectively compared with \$15.3 million and \$31.1 million for the corresponding periods in 2009. The increase in the current quarter as compared with the first quarter of 2009, is mainly attributable to an increase in compensation and benefits of \$0.4 million, an increase in trailer fees of \$0.3 million and an increase in general and administrative costs of \$0.2 million partially offset by a decline in the amortization expense of \$0.1 million. Similarly the increase in the six month period is mainly due to increases in compensation and benefits of \$1.0 million and an increase in trailer fees of \$0.8 million, partially offset by a decrease in general and administrative costs of approximately \$0.3 million.

Changes in specific categories are described in the following discussion:

### *Compensation & Benefits*

Compensation and benefits expense for the quarter and six months ended June 30, 2010 amounted to \$7.5 million and \$15.8 million respectively, including contributions to the discretionary employee bonus pool of \$2.9 million and \$5.4 million respectively. The same expense categories for the quarter and six months ended June 30, 2009, were \$7.1 million and \$14.8 million, respectively. There was little change in total base salary expense in the second quarter and first six months of 2010 compared to the corresponding quarter and six months of 2009, although we have recently increased our headcount as we have added new products and diversified our activities across SAM LP, SCLP and SPW LP. The increase in compensation and benefits of \$0.4 million (5.9%) for the quarter, is primarily due to variable employee compensation paid to SPW LP employees on the sale of Sprott Private Credit Fund units and the sale of Sprott Power Corp shares and a higher contribution to the employee bonus pool as a result of higher net operating income. Similarly, the increase in compensation and benefits of \$1.0 million (6.7%) for the six month period, is primarily due to variable employee compensation paid on the sale of the Sprott 2010 Flow-Through LP, the Sprott Physical Gold Trust units and the Sprott Private Credit Fund units and a higher contribution to the employee bonus pool as a result of higher net operating income. Compensation costs also include stock option benefit costs that have remained consistent at \$0.6 million and \$1.1 million for the quarter and the six month periods.

### *Trailer Fees*

Trailer fees are correlated with AUM and with Management Fees. For the quarter and six months ended June 30, 2010 trailer fees of \$5.1 million and \$10.2 million respectively were 6.5% and 8.4% higher than in the corresponding period of 2009. As a percentage of Management Fees, trailer fees decreased to 21.2% from 22.3% in the second quarter of 2010 as compared with the second quarter of 2009 due to increase in AUM of bullion Funds, which pay no or lower trailer fees and increased slightly to 21.5% from 21.3% in the six months ended June 30, 2010 as compared with the corresponding period in 2009 due to higher AUM of mutual Funds that attract trailer fees.

### *General & Administration*

General and administration expenses overall were higher by \$0.2 million at \$3.0 million, an increase of 6.4%, for the quarter ended June 30, 2010 as compared with the second quarter of 2009 and decreased by \$0.2 million or 4.3% to \$5.6 million for the six months ended June 30,

2010 as compared with the same six month period in 2009. Despite the decline in the general and administration expenses for the six months ended June 30, 2010, as compared to June 30, 2009, these expenses increased slightly in the second quarter of 2010 as compared to the corresponding period of 2009 as a result of small increases in a number of expense categories, including marketing and legal expenses related to product launches.

#### *Charitable Donations*

The Board of Directors of SAMI approved a charitable donations program which became effective in fiscal 2008. Under this program, the amount of charitable donations made each year is 1% of the previous year's net income before tax, as may be adjusted from time to time based on profitability, cash flow and other similar measures. In addition to donations under the program that are directed specifically to children's charities, we make other corporate donations to selected causes. Net income before income tax was higher in 2008 than in 2009 and as a result, the accrual under the charitable donations program is lower in 2010 than in 2009. Due to the lower accrual, donation expense for the second quarter of 2010 is lower than the second quarter of 2009 but donation expense for the six month period ended June 30, 2010 is higher than the corresponding period in 2009 due to a one time corporate donation of \$0.3 million made by SAM LP to CanFund to support Canadian athletes.

#### *Amortization*

Amortization expense is slightly lower in the quarter and six months of 2010 as compared to the quarter and six months of 2009 due to lower net fixed assets in 2010 as no major fixed assets were purchased in 2010.

#### EBITDA, Base EBITDA and Net Income

As discussed earlier, there are a number of non-GAAP measures we use to evaluate the success of our business.

EBITDA allows us to assess our ongoing business without the impact of interest expense, income taxes and certain non-cash expenses, such as amortization and stock based compensation. EBITDA is an indicator of our ability to pay dividends, invest in our business and continue operations.

For the quarter and six months ended June 30, 2010, EBITDA was \$11.6 million and \$21.0 million, compared with \$8.6 million and \$20.3 million for the corresponding periods in 2009. The increase in EBITDA in the second quarter of 2010 as compared to the second quarter of 2009 is mainly a result of higher Management Fees and other income. Similarly the increase in the EBITDA in the six month period ended June 30, 2010 as compared to the corresponding period in 2009 is primarily due to higher Management Fees and substantial sales commissions from the sale by SPW of the Sprott Physical Gold Trust, the Sprott 2010 Flow-Through LP and the Sprott Private Credit Fund partially offset by lower gains on proprietary investments, lower Crystallized Performance Fees, higher trailers and variable payments to Sprott employees related to the receipt of selling commissions described above.

Base EBITDA, as previously defined in this MD&A, allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as gains or losses relating to our proprietary investments. For the quarter and six months ended June 30, 2010 Base EBITDA was \$10.3 million and \$20.6 million as

compared with \$7.6 million and \$15.7 million in the corresponding periods of 2009, representing an increase of 36.0% and 31.5% for the quarter and six month periods. Base EBITDA for the quarter and six months of 2010 increased as compared to the corresponding periods in 2009 based on increases in EBITDA as described above. Base EBITDA is lower than EBITDA for the three and six months ended June 30, 2010 and June 30, 2009 because, unlike EBITDA, Base EBITDA excludes gains on proprietary investments and Performance Fees net of Performance Fee related bonus. Base EBITDA per share at \$.07 and \$0.14 for the quarter and six months of 2010 was higher as compared with \$0.05 and \$0.10 for the corresponding periods in 2009.

Income before taxes for the three and six months ended June 30, 2010 were \$10.8 million and \$19.5 million compared with a pre-tax net income of \$7.8 million and \$18.7 million for the quarter and six months ended June 30, 2009. Effective tax rates at 28.77% and 30.11% remained approximately the same in the three and six months ended June 30, 2010 as compared to 28.68% and 30.30% for the three and six months ended June 30, 2009. The difference between the statutory and effective rate is mostly from the non-taxable portion of the capital gains.

Net income for the quarter and six months ended June 30, 2010 was \$7.7 million and \$13.6 million, as compared to a net income of \$5.6 million and \$13.0 million for the corresponding periods in 2009. For the three month period, increases in Management Fee revenue, commissions and gains on the proprietary investments offset by higher bonus and trailers resulted in the increase in net income. Similarly for the six month period, increases in Management Fee revenue and selling commissions despite a decline in Crystallized Performance Fees, lower gains on proprietary investments and a higher variable compensation expense, resulted in net income increasing over the comparative period in 2009.

### Balance Sheet

Total assets at June 30, 2010 of \$101.2 million are \$3.5 million more than at December 31, 2009. Cash and cash equivalents of \$65.0 million were \$16.0 million higher than at December 31, 2009 because cash inflows, including receipt of year end Performance Fees, sale of certain proprietary investments and collection of commissions by SPW LP, Management Fees net of payment of operating expenses and expense reimbursement by the funds more than offset cash outflows in the form of bonuses and dividends. Proprietary investments are discussed in more detail in the Revenue section of this MD&A. Fees receivable at June 30, 2010 were \$2.7 million, which is \$10.1 million lower than at December 31, 2009 as year-end fee receivables include some Performance Fees that were received in January 2010. Other assets decreased by \$0.8 million since December 31, 2009, mainly due to the collection of recoverable expenses from certain funds, offset by an increase in accumulated deferred sales charges. Other non-current assets as at June 30, 2010 consist of an intangible asset with an indefinite useful life, relating to certain costs incurred to create a management services contract between SAM LP and a Fund managed by SAM LP.

### Dividends

In the first quarter of 2010, the Company recorded a special dividend in the amount of \$0.04 per common share. The special dividend related to performance fees received for 2009.

Regular dividends of \$0.025 per common share were paid to shareholders of record at the close of business on March 1, 2010 and on May 21, 2010.

In August 2010, a dividend of \$0.025 per common share was declared for the quarter ended June 30, 2010.

### **Share Capital**

There has been no change in the share capital of the Company from that disclosed in the annual audited consolidated financial statements as at December 31, 2009.

Earnings per share as at June 30, 2010 and June 30, 2009 have been calculated using the weighted average number of shares outstanding during the respective periods. There has been no change in the number of issued and outstanding shares since the IPO (150 million common shares).

A total of 2,550,000 stock options have been issued pursuant to our incentive stock option plan. In the first quarter of 2010, 100,000 options were cancelled and 50,000 new options were granted by bringing the stock option balance to 2,500,000. As at June 30, 2010, 1,633,000 of those stock options were exercisable.

### **Managing Risk**

There are certain risks inherent in the activities of the Corporation, including risks related to general market conditions; changes in the financial markets; failure to retain and attract qualified staff; poor investment performance; changes in the investment management industry; competitive pressures; failure to manage risks; rapid growth; regulatory compliance; public company reporting and other regulatory obligations; historical financial information not necessarily indicative of future performance; failure to execute our succession plan; conflicts of interest; litigation risk; employee errors or misconduct; effectiveness of information security policies, procedures and capabilities; failure to develop effective business continuity plans; entering new lines of business; fluctuations in Performance Fees; rapid growth or decline in our AUM; insufficient insurance coverage; possible volatility of the share price; and control by a principal shareholder.

We have processes and procedures in place to monitor and mitigate these risks to the extent reasonable and practicable within the framework of our overall strategic objectives of delivering excellence in investment performance.

Certain key risks are managed as described below:

#### *Market Risk*

We monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risk resulting from the nature of our business. In SAM LP, at the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies. At SPW LP, we manage risk at the asset allocation level, by focusing on mitigating risk through the appropriate selection and weighting of portfolio models for each client to reflect their suitability and risk tolerance.

#### *Internal Controls and Procedures*

Both SAM LP and SPW LP operate in a regulated environment and are subject to business conduct rules and other rules and regulations. We have internal control policies related to our business conduct. They include controls required to ensure compliance with the rules and

regulations of relevant regulatory bodies including the Ontario Securities Commission and the Investment Industry Regulatory Organization of Canada (“IIROC”).

*Disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”)*

Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the Corporation and information required to be disclosed in our annual filings, interim filings and other reports filed under securities legislation, as well as the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As of December 31, 2009 an evaluation was carried out, using the COSO<sup>2</sup> internal control framework, under the supervision of and with the participation of management, including the CEO and the CFO, of the effectiveness of our DC&P and our ICFR as defined under *National Instrument 52-109*. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these DC&P's and ICFR were effective as of December 31, 2009. No material weaknesses relating to the design or operation of the DC&P or the ICFR were identified based on the evaluation referred to above.

*Conflicts of Interest*

Internally, we have established a number of policies with respect to our employees’ personal trading. Employees may not trade any of the securities held or being considered for investment by any of our Funds without prior approval. In addition, employees must receive prior approval before they are permitted to buy or sell securities. Speculative trading is strongly discouraged. While employees are permitted to have investments managed by third parties on a discretionary basis, they generally choose to invest in the Funds. All of our employees must comply with our Code of Ethics. This Code establishes strict rules for professional conduct and management of conflicts of interest.

*Independent Review Committee*

National Instrument 81-107 — *Independent Review Committee for Investment Funds* (“NI 81-107”) requires all publicly offered investment funds to establish an independent review committee to whom all conflicts of interest matters must be referred for review or approval. We have established one independent review committee for all of our public mutual Funds. As required by NI 81-107, we have established written policies and procedures for dealing with conflict of interest matters, and we maintain records in respect of these matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is comprised of three independent members, and is subject to requirements to conduct regular assessments and provide reports to us and to the holders of interests in our public mutual Funds in respect of its functions.

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<sup>2</sup> Committee of Sponsoring Organizations of the Treadway Commission. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

### *Confidentiality of Information*

We believe that confidentiality is essential to the success of our business, and we strive to consistently maintain the highest standards of trust, integrity and professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties. We keep the affairs of our clients confidential and do not disclose the identities of our clients (absent express client consent to do so). If a prospective client requests a reference, we will not furnish the name of an existing client before receiving permission from that client to reveal their business relationship with us.

### *Fair Allocation*

In order to ensure fairness in the allocation of investment opportunities among our Funds and Managed Accounts, SAM LP will allocate investment opportunities with consideration to the suitability of such investments to each of SAM's Funds and Managed Account's investment objectives and strategies, portfolio composition, restrictions and cash availability (even though the investment objectives and strategies are substantially the same for some of the Funds and Managed Accounts and cash flows of each Fund and Managed Account can be substantially different given daily/monthly subscriptions and redemptions/withdrawals). As well, cash flows (subscription inflows and redemptions/withdrawals) and investment strategies can influence the allocation process in order to maintain property weightings in each Fund and Managed Account account. If an investment opportunity is suitable for more than one Fund and Managed Account, SAM LP will allocate such investment opportunities equitably in order to ensure that each Fund and Managed account has equal access to the same quality and quantity of investment opportunities. In addition, SAM LP will always seek to obtain the best order execution for each Fund and Managed Account and to minimize transaction costs. SAM LP employee trading accounts (i.e. "PRO" accounts), retail and inventory trades are never commingled with trades involving our Funds and Managed Accounts.

### *Insurance*

We maintain appropriate insurance coverage for general business and liability risks as well insurance coverage required by regulation. We review our insurance coverage periodically to ensure continued adequacy.

### *Risks related to our Funds*

Risks related to our Funds include: external market conditions; changes in investment strategies and portfolios; inability for one class or series to pay expenses of a Fund; fluctuation in frequency and size of redemptions; qualifying as mutual fund trusts; expenses; indemnification obligations; the success of our management strategies; reliance on key personnel; recognition of limited liability of limited partners or unitholders; valuation; fluctuation in commodity prices; foreign exchange and currency risk; interest rate risk; litigation risk; fluctuations in small cap companies; illiquidity; indebtedness secured by assets of a Fund; securities lending losses; special investment techniques; due diligence process; investments in companies we do not control; and ineffective risk management systems. For further details, please refer to the Annual Information Form dated March 30, 2010.

**Liquidity and Capital Resources**

Management Fees can be projected and forecasted with a higher degree of certainty than Performance Fees, and are therefore used as a base for budgeting and planning in our business. Management Fees are accrued daily or monthly in the relevant Funds and collected monthly, which assists our ability to manage cash flow. We believe that Management Fees will continue to be sufficient to satisfy our ongoing operational needs, including expenditure on our corporate infrastructure, business development and information systems. The nature of our operations ensures that the largest outflows, such as trailer fees and monthly compensation, are correlated with cash inflows, in the form of Management Fees. Fixed costs, such as rent, base payroll and general and administrative expenses are managed to comprise a relatively low percentage of monthly Management Fees.

We do not have off-balance sheet contractual arrangements and no material contractual obligations other than our long-term lease agreement expiring on December 31, 2013.

SPW LP is a member of IROC and a registered investment dealer and SAM LP is an OSC registrant in the category of PM and EMD, and as such each of SPW LP and SAM LP is required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of IROC and of the OSC, respectively. During the quarter ended June 30, 2010, SAM LP and SPW LP were in compliance with the specified capital requirements.

**Critical Accounting Estimates**

The preparation of the financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. Items that require use of estimates and assumptions include income taxes, stock options and the valuation of certain proprietary investments.

A portion of Performance Fee revenue is earned by a wholly-owned subsidiary that acts as the general partner to the domestic limited partnerships managed by us. For income tax purposes, as at the end of each income tax year these Performance Fees are an allocation of partnership income and, for the purposes of calculating taxable income, consists of capital gains and/or losses, interest income, dividend income, carrying charges and other types of income and expenses allocated to the general partner. We work with third party advisors to calculate allocations of partnership income, however, such allocations involve a certain degree of estimation. Income tax estimates could change as a result of change in taxation laws and regulations, both domestic and foreign, an amendment to the calculation of allocation of partnership income and/or a change in foreign affiliate rules.

Stock-based compensation expense is estimated based on the value of the option on its grant date. Management adopted a fair value-based valuation methodology as required by GAAP that will best determine the value of options and the cost over the vesting period of the option. The valuation model utilizes multiple observable market inputs including interest rates, however the model requires judgment and assumptions be applied in determining certain inputs including expected volatility and expected option life. Management reviews all inputs on a regular basis to ensure consistency of application and reasonableness.

Some of the Company's proprietary investments are classified as available for sale and/or loans and receivables. Such investments are generally not traded in an active market and are valued at cost less other than temporary impairment, if any, or at "fair value". Management monitors all proprietary investments on a regular basis and makes all reasonable efforts to obtain publicly available information related to such investments. However, since the amount of information for investments that are not publicly traded is often limited, fair value of certain available for sale and loans and receivables investments could subsequently prove to differ from amounts at which they are carried on the balance sheet.

Certain fees recoverable from Funds or third parties relate to new investment products and are contingent upon a successful completion of such product launches. Management evaluates such assets on a regular basis and only capitalizes the portion of the recoverable that is more likely than not to be recovered.

We review all estimates periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

### **Financial Instruments**

Our financial instruments consist of cash and cash equivalents, investments in private and public equities, stock warrants, an investment in a secured note as well as investments in mutual Funds and hedge Funds, fees receivable, accounts payable and accrued liabilities and compensation payable. Investments in public equities, mutual Funds and hedge Funds are recorded on the balance sheet at their fair values; investments in private equities are recorded at cost less any impairment, while the secured note has been classified under loans and receivables.

The maximum loss that the Company can incur in respect of proprietary investments is the carrying value thereof. The market value of our proprietary investments varies daily based on general market conditions and the values of securities in the relevant Funds.

### **Changes in Accounting Policies**

There were no significant accounting policy changes adopted by the Company during the quarter.

### **Future accounting changes**

#### *International Financial Reporting Standards*

The use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace Canadian GAAP currently followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended December 31, 2011 and will be required to provide information that conforms with IFRS for the comparative periods presented.

We implemented an IFRS changeover plan and completed a preliminary analysis of transition impacts in 2009. We engaged an independent accounting firm to assist us with the IFRS changeover analysis and plan. Our IFRS conversion plan addresses matters including changes in accounting policy, the restatement of comparative periods, organizational and internal control, training and awareness of staff in addition to other related business matters. Overall responsibility for the implementation and success of the conversion plan rests with the Company senior financial management who report to and are overseen by the Audit Committee.

As of June 30, 2010, it was determined that a switchover to IFRS would not have a material impact on the financial statements of the Company, except for expenses related to equity compensation arrangements that the Company has entered into in the third quarter of 2010, which are further discussed below under the “Growth Initiatives” section of this MD&A.

The Company continues to update its findings as existing standards are clarified and new standards are implemented.

The Company intends to make the following policy choices under IFRS 1 *First time adoption of IFRS*:

- IFRS 3 *Business Combinations* will not be applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010, which means that all past business combinations will not be restated.
- IFRS 2 *Share-based Payments* will not be applied to equity instruments that were granted on or before November 7, 2002, nor will it be applied to equity instruments granted after 7 November 2002 that vested before January 1, 2010.
- Financial assets classified as available-for-sale under Canadian GAAP will be re-designated as fair value through profit or loss under IAS 39 *Financial Instruments – Recognition and Measurement*. These financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy.

The Company expects the following adjustments to its financial statements as a result of transition to IFRS:

- The value of proprietary investments will increase by approximately \$250 thousand as at January 1, 2010 as a result of re-designating financial assets classified as available-for-sale under Canadian GAAP at fair value through profit or loss under IAS 39. The impact of this adjustment is not material to either the opening balance sheet or 2010 net income.
- For equity instruments, such as stock options, the timing of expense recognition differs between Canadian GAAP and IFRS. While the total stock option expense calculation is similar under the two sets of standards, under IFRS, the expense is recognized on a graded vesting schedule as compared with straight line vesting under Canadian GAAP. This will result in a larger portion of the expense being recognized earlier in the vesting period. Since the Company intends to make an election under IFRS for equity instruments that vested before January 1, 2010, the difference only impacts stock options that vest after this date. An adjustment will be recorded as at January 1, 2010 to account for the difference. This adjustment is not material, since it is a reclassification between contributed surplus and opening retained earnings. The adjustment for existing equity instruments will not have a material impact on 2010 net income to date.
- For the deferred share incentive program proposed for the third quarter of 2010 (discussed in greater detail below), depending on the required accounting for such arrangements, the difference in timing of expense recognition between Canadian GAAP and IFRS may be material for net income in the third quarter and, possibly, the fourth quarter of 2010. Further details will be provided in the relevant quarterly reports.

In addition to policies discussed above, as part of its IFRS changeover plan, the Company identified other potential high and medium impact areas, including consolidation of the various funds managed by SAM LP, recognition of intangible assets and accounting for fixed assets.

- Consolidation of the various funds managed by SAM LP has been noted as high impact because any requirement to consolidate of the funds that we manage with the Company's balance sheet and statements of income and cash flows would have a material impact on the consolidated financial statements. After a detailed analysis, it was determined that currently the Company is not required to consolidate funds managed by SAM LP under IFRS.
- Intangible assets recognition and measurement criteria are similar under Canadian GAAP and IFRS; therefore, no material differences were identified.
- There are certain differences in accounting for fixed assets under IFRS and Canadian GAAP. After a review of the Company's fixed assets, it was determined that no material adjustments will be required.
- There are a number of disclosure differences that exist between Canadian GAAP and IFRS. Since these are disclosure items, they are not expected to have a material impact on the Company's financial statements.

For the remainder of 2010, the Company will continue to monitor new standards and amendments to existing IFRS standards and evaluate their impact.

### **Related Party Transactions**

Most of the artwork displayed in our office area was rented from Eric Sprott, CEO of the Company as well as from Sprott Securities Ltd., a corporation wholly owned by Mr. Sprott. The rental rate was equal to 3% per annum of the original acquisition cost of such artwork. Mr. Sprott and Sprott Securities Ltd. terminated the artwork rental charges effective May 2009.

### **Growth Initiatives**

The second quarter of 2010 was, once again, a very active period as we continue to execute on the growth and development initiatives in each of our operating entities:

#### *Hiring and Retention of Top Talent*

On July 13, 2010 we announced the hiring of Peter Grosskopf as Chief Executive Officer, effective September 7, 2010 to succeed Eric Sprott in that role. Mr. Sprott will assume the position of Chairman of Sprott Inc. and Chief Investment Officer ("CIO") of SAM LP. While Mr. Grosskopf will be responsible for developing and implementing the overall strategy for the Sprott group of companies, this change will allow Mr. Sprott to further focus on his role as CIO of SAM LP and Portfolio Manager for a number of our investment funds – investment performance continues to be a key priority for our business.

In recognition of Mr. Grosskopf's past accomplishments in the financial services industry and to acknowledge the future contributions of Mr. Grosskopf and Mr. Bambrough, the Company's President, Eric Sprott has personally agreed to fund a deferred share incentive program through his personal holding company ("Holdco"). The program will provide Mr. Grosskopf with five

million common shares of Sprott Inc. held by Holdco over a specified period, and Mr. Bambrough with three million common shares of Sprott Inc. also over a specified period. With this transfer of eight million common shares of Sprott Inc., Holdco's ownership stake will be reduced by approximately 8%. This arrangement does not contemplate any issuance of shares from treasury by the Company.

In order to retain and motivate key employees as well as to align the interests of employees with that of our shareholders, we are reviewing our compensation and incentive plans including the possible introduction of an equity-related compensation plan. Any change in our compensation arrangements will be effective in 2011.

#### *Product and Business Line Expansion*

We continue to add products to better serve our clients and to take advantage of expertise and opportunities that we have identified to generate returns to add value for our shareholders over time.

We have very recently launched a suite of fixed income funds to be managed by Scott Colbourne and Michael Craig who joined SAM LP earlier this year. These funds help us to significantly diversify our Fund offerings while remaining committed to delivering exceptional returns for the investors in our Funds.

SCLP recently launched Sprott Power Corp. ("SPC"). SPC intends to create a premier renewable development company that will serve as a conduit between investors looking to invest in power generation assets for low risk yield and developers seeking capital and/or some liquidity. SPC raised approximately \$25 million of capital from SPW LP clients, employees and other investors.

SCLP has signed a Letter of Intent with Quest Capital Corp. ("Quest") pursuant to which SCLP has agreed to manage Quest. Quest will be renamed "Sprott Resource Lending Corp." ("SRLC") and its activities going forward will be focused on bridge and mezzanine lending to natural resource companies. Quest intends to initiate a substantial issuer bid to repurchase up to \$60 million of its issued and outstanding shares. Subsequent to the substantial issuer bid, the Company and its affiliates (including its employees and clients) will make an investment in SRLC through a private placement of up to \$25 million. The proposed transaction, including the substantial issuer bid and the subsequent private placement are all subject to applicable shareholder, regulatory, stock exchange or other approvals.

SPW LP provides a unique distribution channel for some of our offerings, in particular, the Sprott Private Credit Fund, SPC and, potentially, SRLC. Offerings such as these may only be available to SPW LP clients, have the potential to add additional AUM within the group and SPW LP may receive selling commissions in respect of certain sales of these offerings.

The addition of these products and business lines has required, and will require, us to make investments in technology, infrastructure and resources in order to continue to be able to provide effective and efficient service to our clients and to the Funds and Managed Accounts that we manage.

*Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).*