



August 12, 2010

Dear Shareholders,

During the second quarter of 2010, we delivered strong investment performance with the majority of our funds posting gains. Our portfolios benefited from our gold exposure, as the metal gained close to 12% during the period and closed above US \$1,240 per ounce. As a result, our top performers for the quarter included the Spratt Physical Gold Trust, the Spratt Gold Bullion Fund, and the Spratt Gold and Precious Minerals Fund.

In May, we completed a follow-on offering of units of the Spratt Physical Gold Trust. The same month we launched the Spratt Private Credit Fund. In keeping with the goals we outlined at the start of this year, we have also continued our efforts to broaden our product lineup with the launch of a new suite of fixed income funds. These funds will be managed by Scott Colbourne and Michael Craig, award winning fixed income managers, and will provide our clients with a more diverse range of options to help meet their investment needs. With the introduction of these new funds, we have now launched six new products in the first half of 2010 and filed a preliminary prospectus for the Spratt Physical Silver Trust.

Our AUM was \$5.5 billion at the end of June 2010, up from \$4.4 billion at the end of June 2009, and \$5.1 billion as at March 31, 2010. The increase in AUM was largely due to sales of the follow-on offering of Spratt Physical Gold Trust Units and the launch of the Spratt 2010 Flow-Through Limited Partnership, as well as nearly \$300 million in market value appreciation of the portfolios that we manage.

Spratt Consulting LP ("SCLP") continues to expand its roster of managed companies, and recently signed a letter of intent with Quest Capital Corp. to re-brand the company Spratt Resource Lending Corp. The transaction is subject to shareholder approval, however, the intent of the new entity will be to focus on providing mezzanine and bridge financing to companies in the oil and gas and mining sectors, an area where our team can provide tremendous expertise. SCLP has also developed a presence in the renewable energy space through the formation of Spratt Power Corp. The new company will be run by Jeff Jenner, an accomplished energy professional, and will be committed to the acquisition, development and financing of renewable energy projects. Both projects will be managed by SCLP through management services agreements. Under the leadership of its CEO, Kevin Bambrough, SCLP continues to be active in evaluating new opportunities to either invest in existing companies or, where a gap in the market exists, opportunistically create new entities.

Finally, as our organization continues to grow and evolve, it is important that we continue to attract top talent to drive our long-term growth. For that reason, we were very pleased to be able to announce that, effective September 7, 2010, I will step down as CEO of Spratt Inc. to devote most of my time to the management of my funds. Peter Grosskopf, an extremely talented and highly motivated individual with whom I have had the pleasure of working for many years, will replace me. Peter is an accomplished financial industry executive who was most recently the President of Cormark Securities Inc. Peter brings a strong vision to our company and a commitment to growing Spratt into a global

investment brand. In addition to his role as CEO of Sprott Inc., Peter will bring his tremendous experience in financing natural resource companies to Sprott Resource Lending Corp., where he will also serve as CEO. I have every confidence in Peter's ability to execute on his vision for Sprott and look forward to working closely with him and his senior management team in the years ahead. As part of this transition, I will take over as Chairman of the Sprott Inc. Board of Directors and will continue as Chief Investment Officer of Sprott Asset Management. Jack Lee, the current Chairman of our Board of Directors will continue as the Board's lead director. I would like to personally thank Jack for his leadership and guidance and look forward to his ongoing contributions to the Board of Directors.

As always, we remain focused on delivering superior investment performance. We are confident in the abilities of our investment team and many of our funds are well positioned to generate performance fees over the remainder of the year. We look forward to reporting to you on our progress.

A handwritten signature in black ink, appearing to read "E Sprott". The signature is fluid and cursive, with the first letter "E" being particularly large and stylized.

Eric Sprott
Chief Executive Officer
Sprott Inc.