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## MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion & Analysis ("MD&A") of financial condition and results of operations presents an analysis of financial condition of Sprott Inc. (the "Corporation") and its subsidiaries as of December 31, 2009 compared with December 31, 2008.

The Corporation was incorporated under the *Business Corporations Act* (Ontario) on February 13, 2008. The Corporation was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI"). On May 8, 2008, the Corporation filed a prospectus ("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 Corporation ("the Offering").

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the notes thereto.

The audited 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 Corporation's annual information form dated March 9, 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 and hedge funds (the "Funds") and managed accounts ("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 the level of our investment performance and our AUM.

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

Investment performance is a key driver of AUM and is the very core of what we do. 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.

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## 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 non-cash stock-based 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 of fixed assets, amortization of deferred sales charges and non-cash stock based 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; (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, such as those described in (i) above as well as items that are not related to our core operations, such as income or loss relating to investments in certain 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 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.

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

As at December 31, 2009, we had approximately 88,000 client accounts, including approximately 2,000 direct client accounts through SPW LP. Our clients are primarily retail, high net worth and, to a lesser extent, institutional investors who subscribe to our investing strategy and process. As at December 31, 2009, we managed approximately \$4.8 billion in assets among our various Funds and Managed Accounts.

The breakdown of AUM by investment product type as at December 31, 2009 and December 31, 2008 was as follows:

Product Type	December 31, 2009		December 31, 2008	
	\$ (in millions)	% of AUM	\$ (in millions)	% of AUM
Mutual Funds	2,401	50.3%	1,615	36.3%
Domestic Hedge Funds	1,408	29.5%	1,631	36.7%
Offshore Funds	507	10.6%	825	18.5%
Managed Accounts	458	9.6%	378	8.5%
Total	4,774	100%	4,449	100%

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 over either a relevant benchmark or hurdle, if any, or net profit over the performance period. 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.

Our most significant expenses include compensation and benefits and trailer fees. With respect to compensation and benefits, employees are paid a base salary and could be entitled 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 Corporation. 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. 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.

### Key Performance Drivers

The most significant factor that drives our business results continues to be the investment 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 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.

Our key performance indicators are:

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

The vast majority of our AUM has a fee structure that consists of both a Management Fee component and a Performance Fee component. Management Fees are calculated as a percentage of AUM, varying from 0.5% to 2.5% per annum among series of units of the respective Fund's and Managed Account's average net assets. Management Fees accrue daily or monthly, depending on how frequently a particular Fund is valued, and are payable monthly or quarterly. Performance Fees are calculated as a percentage of: (i) the relevant Fund's or Managed Account's excess performance over the relevant benchmark; (ii) the increase in net asset values over a predetermined hurdle; or (iii) the net profit in the relevant Fund over the performance period. Performance Fees for all relevant Funds are calculated on a cumulative basis at the end of each fiscal year.

AUM fluctuates as a result of two factors: net sales (Funds and Managed Accounts sales less redemptions) and the changes in the market values of the assets in the 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, which is 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

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offshore fund Management Fees; therefore, the balance of AUM among our various Funds impacts Management Fees as a percentage of AUM.

Performance Fees for our Funds and Managed Accounts, where applicable, 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. These 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.

Both the employee bonus pool component of compensation and trailer fees are correlated with average AUM. 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 average AUM. We do not pay trailer fees on certain series/classes of domestic mutual Funds and hedge Funds nor do we pay trailer fees on our offshore hedge Funds.

### Capability to Deliver Results

SAMI was founded and has grown over time based on Eric Sprott's philosophy that generating exceptional absolute and relative investment returns for the investors in the Funds and Managed accounts that we manage is the key to generating shareholder value. Over the past few years we have added several award-winning portfolio managers, all of whom are dedicated to the same philosophy. We launch new Funds where we believe that we have a "competitive advantage", specialized skill and knowledge that will give us the ability to generate above-average investment performance.

Pursuant to the corporate reorganization described earlier in this MD&A, we recognized the need for leadership to drive the growth and development of the Corporation through the three principal operating subsidiaries. In order to facilitate that process, and to enable Eric Sprott to focus more exclusively on portfolio management activities, in November 2009, Kevin Bambrough, CEO of SCLP, was appointed as President of the Corporation.

While each of our operating subsidiary companies has an established management team, we have expanded, and will continue to expand, the management teams at each of those companies. James Fox, Senior Vice-President of Sales & Marketing for SAM LP was appointed President of SAM LP, Peter Loach was hired as Executive Vice-President of Product Development for SAM LP, Michael Ricafort was recently hired to head sales and strategy for SPW LP and Steve Yuzpe joined SCLP in 2009 to be the Chief Financial Officer for Sprott Resource Corp. ("SRC").

### Financial Highlights

Financial highlights for the year ended December 31, 2009 were:

- Assets Under Management increased by 7.3% to \$4,774 million at December 31, 2009 from \$4,449 million at December 31, 2008. Monthly average assets under management for 2009 were \$4,482 million as compared to \$6,291 million in 2008, a decrease of 28.8%. Net redemptions for the year were \$571 million but market value increased by an aggregate of \$896 million, resulting in AUM increasing by \$325 million.
- Management Fees for the year ended December 31, 2009 were \$88.0 million, representing a decrease of \$35.9 million or 29.0% compared with 2008.
- Performance Fees for the year ended December 31, 2009 of \$13.0 million were \$34.9 million or 72.9% lower than in 2008.
- Base EBITDA for the year ended December 31, 2009 was \$33.7 million compared to \$57.1 million for the year ended December 31, 2008.
- Net income for the year ended December 31, 2009 is \$31.8 million, and represents earnings per share, basic and diluted, of \$0.21. Net Income for the year ended December 31, 2008 was \$52.1 million, representing earnings per share, basic and diluted, of \$0.36. Had the 150 million issued and outstanding shares been outstanding for the full year ended December 31, 2008, earnings per share, basic and diluted, would have been \$0.35.

## Selected Annual Financial Information

As at December 31 (In \$ 000, except for per share amounts)	2009	2008	2007
<b>Assets Under Management</b>			
Assets Under Management	4,773,789	4,448,708	\$ 6,215,273
<b>Balance Sheet Information</b>			
Total Assets	97,694	123,430	280,873
Total Liabilities	21,554	43,916	142,785
Shareholders' Equity	76,140	79,514	138,088
<b>Income Statement Information</b>			
Total Revenue	107,525	165,757	227,621
Net Income	31,830	52,136	42,282
Net Income Per Share – basic	.21	.36	.32
Net Income Per Share – fully diluted	.21	.36	.32

## Summary Financial Information

	For the year ended December 31, 2009 \$	For the year ended December 31, 2008 \$
<b>Revenue</b>		
Management fees	88,023	123,970
Performance Fees	12,981	47,922
Unrealized and realized gains (losses) on proprietary investments	5,032	(11,722)
Other income	1,489	5,587
<b>Total revenue</b>	<b>107,525</b>	<b>165,757</b>
<b>Expenses</b>		
Compensation and benefits	30,294	46,823
Trailer fees	19,191	26,491
General and administration	10,747	11,006
Donations	1,143	1,651
Amortization	988	574
Interest expense	-	-
<b>Total expenses</b>	<b>62,363</b>	<b>86,545</b>
Income before income taxes	45,162	79,212
Provision for income taxes	13,332	27,076
<b>Net income and comprehensive income for the period</b>	<b>31,830</b>	<b>52,136</b>
Other expenses <sup>1</sup>	3,288	2,098
Provision for income taxes	13,332	27,076
<b>EBITDA</b>	<b>48,450</b>	<b>81,310</b>
Unrealized and realized (gain) loss on proprietary investments	(5,032)	11,722
Performance fees net of performance fee related bonus pool <sup>2</sup>	(9,736)	(35,941)
<b>Base EBITDA</b>	<b>33,682</b>	<b>57,091</b>

1 Includes interest, amortization and non-cash stock-based compensation expense.

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

## Results of Operations

### Overall Performance

AUM increased to \$4,774 million at December 31, 2009 compared with \$4,449 million at December 31, 2008. Net redemptions for the year ended December 31, 2009 were at \$571 million, but market values appreciated by \$896 million resulting in the net \$325 million increase in AUM for the year. Monthly average AUM for the year ended December 31, 2009 was \$4.5 billion compared with \$6.3 billion in 2008, a decrease of 28.8%.

Revenues for 2009 totaled \$107.5 million, a decrease of \$58.2 million or 35.1% compared to the prior year. Performance fees decreased by \$34.9 million or 72.9% and Management Fees decreased by \$35.9 million or 29%, accounting for most of the overall decrease in total revenue, which was partially offset by unrealized and realized gains on proprietary investments of \$5.0 million compared to unrealized and realized losses of \$11.7 million in 2008.

Expenses totaled \$62.4 million for the year ended December 31, 2009, which is a decrease of \$24.1 million or 27.9% as compared with 2008. The decreases are mainly attributable to a decrease in compensation and benefits and in trailer fees, both of which are correlated with management and/or performance fees.

Net income of \$31.8 million for the year ended December 31, 2009 compares with net income of \$52.1 million in 2008. Lower Management Fees and Performance Fees contributed to the lower net income despite the decrease in overall expenses in 2009.

### Assets Under Management

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

(\$ millions)	Year ended December 31, 2009	Year ended December 31, 2008
AUM, beginning of year	4,449	6,215
Net (redemptions) sales	(571)	95
Market value appreciation (depreciation) of portfolios	896	(1,861)
AUM, end of year	4,774	4,449

### Revenue

Total revenues decreased by \$58.2 million or 35.1% from \$165.8 in 2008 to \$107.5 million in 2009.

Management fees decreased by \$35.9 million or 29.0% from \$124.0 in 2008 to \$88.0 million in 2009, as monthly average AUM decreased by 28.8% over the same period. Management Fee margins (defined as Management Fees as a percentage of average AUM) remained fairly constant at 2% in 2009.

Performance Fees for the year ended December 31, 2009 were \$13.0 million as compared to \$47.9 million for the prior year. Of the total 2008 Performance Fees, \$35.6 million was earned by SC LP from its management of SRC, with the remainder generated primarily by our domestic and offshore hedge Funds. In 2009 Performance Fees were mainly generated by our domestic and offshore hedge Funds.

Gains from proprietary investments totaled \$5.0 million for the year ended December 31, 2009 as compared with losses of \$11.7 million in 2008. During the year ended December 31, 2009, sales of proprietary investments resulted in a net realized gain of \$2.3 million. In addition the market value of proprietary investments appreciated by \$2.7 million. The realized gain was primarily due to the corporate reorganization of Sprott Molybdenum Participation Corporation ("Sprott Moly"). As a result of this reorganization, the Corporation exchanged 3,976,000 shares or 10.08% of Sprott Moly for 3,976,000 shares of Cadomin Capital Corporation (now an unrelated company) and approximately \$1.76 per share in cash. During 2008, a substantial portion of proprietary investments was sold as a part of a capital reorganization prior to the IPO thereby resulting in total realized gains of approximately \$9.8 million; a majority of the realized gains related to precious metal bullion as well as investments in certain publicly traded equities. During the same period, declines in the market value of investments in other public companies and an investment in a hedge fund triggered an unrealized loss of \$21.5 million.

Other income decreased from \$5.6 million to \$1.5 million year over year. In 2008, the main components of other income were: a foreign exchange gain of \$1.5 million, \$2.4 million of early redemption fees, \$1 million of interest income and \$0.5 million of selling group commissions. In 2009, other income consisted primarily of \$1.1 million of interest income and early redemption fees of \$0.7 million partially offset by a foreign exchange loss of \$0.4 million.

### Expenses

Total expenses for the year ended December 31, 2009 were \$62.4 million, a decrease of \$24.1 million, or 27.9%, compared with \$86.5 million for 2008. The decline in the current year is mainly due to a decrease in compensation and

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benefits of \$16.5 million, a decrease in trailer fees of \$7.3 million, decreases in general and administrative costs of \$0.3 million and decreases in donations of \$0.5 million, partially offset by an increase in fixed assets amortization expense.

Changes in specific categories are described in the following discussion:

#### Compensation & Benefits

Compensation and benefits expense for the year ended December 31, 2009 amounted to \$30.3 million, including contributions to the discretionary employee bonus pool of \$13.2 million. The same expense category for the year ended December 31, 2008 was \$46.8 million. The decrease in compensation and benefits of \$16.5 million (35.3%) for the year primarily reflects a lower contribution to the employee bonus pool due to lower operating income based on Management Fees, net of operating expenses, and lower Performance Fees in 2009 as compared to 2008.

Compensation costs also include stock option benefit costs that are higher in 2009.; Although no new stock options were granted in 2009, the expense was recorded for the entire year, as compared to only 8 months (since the date of grant) in 2008.

#### Trailer Fees

Trailer fees are correlated with AUM and Management Fees. For the year ended December 31, 2009 trailer fees of \$19.2 million were 27.6% lower than in 2008. Trailer fees as a percentage of Management Fees for the year ended December 31, 2009 have increased slightly to 21.8% from 21.4% in year ended December 31, 2008. This increase is mainly due to a proportionate increase in the AUM of mutual Funds that pay trailer fees.

#### General & Administration

General and administration expenses decreased by \$0.3 million, or 2.3%, to \$10.7 million for the year ended December 31, 2009 as compared with 2008. General and administration expenses consist primarily of rent, marketing, regulatory fees, legal and professional fees as well as miscellaneous costs such as quote and news services, printing and systems maintenance. General and administrative costs have remained largely consistent with prior year, with the exception of rent and legal fees. Rent expense decreased due to the termination of the artwork rental agreement by Eric Sprott in May of 2009, while legal fees were higher than in the prior year due to the corporate reorganization that took place in June of 2009.

#### 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 1.0% of the previous year's net income before taxes, 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 2007 than in 2008 and as a result, the expense under the charitable donations program is lower in 2009 than in 2008.

#### Amortization

Amortization expense in 2009 is higher than 2008 by \$0.4 million. In 2008 amortization was unusually low due to a reversal of previously recorded artwork amortization and in addition, certain new purchased software was amortized in 2009 without a corresponding amount charged in 2008.

#### 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 year ended December 31, 2009, EBITDA was \$48.5 million compared with \$81.3 million for the year ended December 31, 2008. Net income of \$31.8 million in 2009 is \$20.3 million lower than in 2008 and the provision for income taxes in 2009 is \$13.7 million lower than in 2008, resulting in EBITDA being \$32.9 million lower in 2009 than in 2008. For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table contained elsewhere in this MD&A.

Base EBITDA, as defined elsewhere 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 income or loss relating to investments in certain proprietary investments. For the year ended December 31, 2009 Base EBITDA was \$33.7 million as compared with \$57.1 million in 2008, representing a decrease of 41.0%. Gains on proprietary investments for the year ended December 31, 2009 were \$5.0 million compared with losses of \$11.7 million for the year ended December 31, 2008, while Performance Fees, net of Performance Fee-related bonus pool

contributions, were \$23.4 million lower in 2009 than in the corresponding period in 2008. As a result, Base EBITDA fell by 41.0% year-over-year.

Income before taxes was \$45.2 million for the year to December 31, 2009 compared with a pre-tax net income of \$79.2 million for the year ended December 31, 2008.

Net income for the year ended December 31, 2009 was \$31.8 million as compared to a net income of \$52.1 million for the corresponding period in 2008.

### Balance Sheet

Total assets at December 31, 2009 of \$97.7 million are \$25.7 million less than at December 31, 2008. Cash and cash equivalents of \$49.0 million were \$40.9 million lower than at December 31, 2008 primarily due to the 2008 special dividend that was paid in early 2009, and purchases of proprietary investments.

Proprietary investments totaling \$28.0 million at December 31, 2009 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. The more significant proprietary investments purchased in 2009 include the secured note receivable and gold bullion.

The investment in a secured note receivable was made in the second quarter of 2009 through a wholly owned subsidiary of the Corporation. The note issued by a company in the gold sector, matures in 2014 and bears interest at 10% per annum. The investment was made in order to diversify the portfolio of proprietary investments held as well as to implement a tax planning strategy to utilize tax losses recognized by the Corporation as a future tax asset. The investment in the note is classified under loans and receivables. The issuer of the note also issued non-exchange traded warrants to the purchasers of the note, including the Corporation. The warrants are classified as held for trading.

Fees receivable at December 31, 2009 were \$12.8 million, which is \$0.8 million lower than at December 31, 2008; the difference is primarily attributed to timing of collection of performance fees. Other assets increased by \$1.5 million since

December 31, 2008 mainly due to an increase in interest receivable and the timing of collection of amounts recoverable from the Funds. Amounts recoverable from the Funds were significantly higher than usual as at December 31, 2009 due to costs incurred relating to the Sprott Physical Gold Trust that was launched in March 2010 and which raised over \$400 million of AUM.

### Dividends

In February 17, 2010, a dividend of \$0.025 per common share was declared for the quarter ended December 31, 2009.

In addition, on March 9, 2010, the Company's Board of Directors declared a special dividend of \$0.04 per common share following receipt of performance fees for the year ended December 31, 2009.

### Outstanding Share Data

Effective May 15, 2008, the Corporation acquired all the outstanding shares of SAMI pursuant to terms of a share exchange agreement among SAMI, the shareholders of SAMI and the Corporation. Each common share of SAMI was exchanged for common shares of the Corporation on a one for 27.5062984 basis. The Corporation issued an aggregate of 150,000,000 common shares to the shareholders of SAMI.

Earnings per share as at December 31, 2009 and December 31, 2008 have been calculated using the weighted average number of shares outstanding by applying the exchange ratio above to SAM shares outstanding prior to May 15, 2008 and the 150 million shares of the Corporation issued on May 15, 2008 pursuant to the Offering. There was no change in the number of issued and outstanding shares since the IPO.

A total of 2,550,000 stock options have been issued pursuant to our incentive stock option plan. As at December 31, 2009, 850,000 of those stock options were exercisable.

On January 15, 2010, 50,000 stock options were granted to a director of the Company. The stock options have an exercise price of \$4.85, vest over three years and expire in ten years.

## Summary of Quarterly Results and Fourth Quarter 2008

(\$ in thousands, except per share amounts)	3 Months ending 31-Mar-08	3 Months ending 30-Jun-08	3 Months ending 30-Sep-08	3 Months ending 31-Dec-08	3 Months ending 31-Mar-09	3 Months ending 30-Jun-09	3 Months ending 30-Sep-09	3 Months ending 31-Dec-09
Assets Under Management	6,800,601	7,726,327	5,606,002	4,448,708	4,724,653	4,444,146	4,338,422	4,773,789
<b>Income Statement Information</b>								
<b>Revenue</b>								
Management fees	32,763	36,628	32,860	21,719	22,596	21,673	20,702	23,052
Performance fees	305	3,992	1,257	42,368	1,810	405	152	10,614
Unrealized and realized gains (losses) on proprietary investments	8,150	(2,754)	(9,706)	(7,412)	2,143	767	657	1,465
Other income	1,911	1,634	1,015	1,027	107	247	520	615
<b>Total revenue</b>	<b>43,129</b>	<b>39,500</b>	<b>25,426</b>	<b>57,702</b>	<b>26,656</b>	<b>23,092</b>	<b>22,031</b>	<b>35,746</b>
<b>Expenses</b>								
Compensation and benefits	8,496	11,305	9,513	17,509	7,699	7,114	6,212	9,269
Trailer fees	7,108	7,948	7,022	4,413	4,589	4,831	4,672	5,099
General and administration	2,251	2,824	2,721	3,210	3,040	2,794	2,620	2,293
Donations	325	366	306	654	284	292	285	282
Amortization	(59)	172	269	192	216	223	197	352
<b>Total Expenses</b>	<b>18,121</b>	<b>22,615</b>	<b>19,831</b>	<b>25,978</b>	<b>15,828</b>	<b>15,254</b>	<b>13,986</b>	<b>17,295</b>
Income before income taxes	25,008	16,885	5,595	31,724	10,828	7,838	8,045	18,451
Provision for income taxes	8,298	5,495	1,927	11,356	3,407	2,248	2,539	5,138
<b>Net Income</b>	<b>16,710</b>	<b>11,390</b>	<b>3,668</b>	<b>20,368</b>	<b>7,421</b>	<b>5,590</b>	<b>5,506</b>	<b>13,313</b>
Other expenses	(59)	548	843	766	790	797	771	930
Provision for income taxes	8,298	5,495	1,927	11,356	3,407	2,248	2,539	5,138
<b>EBITDA</b>	<b>24,949</b>	<b>17,433</b>	<b>6,438</b>	<b>32,490</b>	<b>11,618</b>	<b>8,635</b>	<b>8,816</b>	<b>19,381</b>
Unrealized and realized (gains) losses on proprietary investments	(8,150)	2,754	9,706	7,412	(2,143)	(767)	(657)	(1,465)
Performance fees net of performance fee-related bonus pool	(229)	(2,994)	(943)	(31,775)	(1,357)	(304)	(114)	(7,961)
<b>Base EBITDA</b>	<b>16,570</b>	<b>17,193</b>	<b>15,201</b>	<b>8,127</b>	<b>8,118</b>	<b>7,564</b>	<b>8,045</b>	<b>9,955</b>
<b>Basic and diluted earnings per share</b>	<b>0.12</b>	<b>0.08</b>	<b>0.02</b>	<b>0.14</b>	<b>0.05</b>	<b>0.04</b>	<b>0.03</b>	<b>0.09</b>

\* Average of month-end AUM

As discussed under “Metrics of Our Business” above, Performance Fees of our Funds and Managed Accounts are determined as of December 31 each year. Through the first three quarters of the year, Performance Fees reported in the Corporation’s financial statements reflect Crystallized Performance Fees. To the extent that we earn Performance Fees on any of the Funds and Managed Accounts, these are reflected in the fourth quarter. Performance Fee-related bonus pool contributions of 25% of Performance Fees are recorded in the quarter when such fees are earned.

In fourth quarter of 2009, Performance Fees in the amount of \$10.6 million were accrued. In the fourth quarter of 2008, total Performance Fees of \$42.4 million were recorded. Of the \$42.4 million, \$35.6 million was generated by SCLP through its management of SRC. SRC did not generate any incentive fees in 2009.

There is generally no other seasonality to our earnings and the trends in fees and expenses relate primarily to the level of our AUM. In addition, there are no special or unusual adjustments to the financial statements at year-end.

The fourth quarter of 2009 saw AUM increasing by \$436 million from \$4,338 million at September 30, 2009 to \$4,774 million at December 31, 2009. The increase reflected a combination of net redemptions of \$68.2 million and net market value appreciation of the Funds and Managed Accounts of \$503.6 million. Over half of the total net redemptions for the quarter related to the Sprott Opportunities Hedge Fund – a continuation of redemptions following the retirement of J.F. Tardif in July 2009. However, the redemptions have slowed considerably and significant additional redemptions from that Fund are not anticipated.

We continue to generate ideas for new investment products and recently launched two new funds. Our first flow-through fund, the Sprott 2010 Flow-Through LP and the Sprott Physical Gold Trust that is listed on both the Toronto Stock Exchange and on the NYSE Arca. We remain confident in our long term investment views and continue our pursuit of investment opportunities.

### 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 Canadian generally accepted accounting principles.

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As of December 31, 2009 an evaluation was carried out, using the COSO<sup>1</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 of our Chief Compliance Officer 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.

<sup>1</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

We believe that our investors have the right to be assured that Fund and Managed Accounts interests will take precedence over the personal trading activities of investment professionals and other access persons. We strive to ensure the fair treatment of our Funds through the highest standards of integrity and ethical business conduct. The principle of fair treatment is recognized by all of our employees, officers and directors. In order to ensure fairness in the allocation of investment opportunities among our Funds and Managed Accounts, we will allocate investment opportunities with consideration of the suitability of such investments to each Fund's or Managed Account's objective and strategy, portfolio composition, Fund or Managed Account restrictions and cash availability (even though the investment objectives and strategies are substantially the same for some of our Funds and Managed Accounts, cash flows of each of our Funds and Managed Accounts can be substantially different given daily/monthly subscriptions and redemptions). If an investment opportunity is suitable for more than one Fund or Managed Account, we will allocate such investment opportunities equitably in order to ensure that our Funds have equal access to the same quality and quantity of investment opportunities. We consistently seek to negotiate the best possible price through a broker, and when allocating block trades, allocations are made on a pro-rata basis, with consideration given to the objective, strategy, restrictions, portfolio composition and cash availability of each Fund and Managed Account.

### 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.

## 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 total compensation, are correlated with cash inflows

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. We did not renew our credit facility upon its expiry during the year due to significant increase in the cost of maintaining that facility and the fact that we did not anticipate a need to draw on the facility in the foreseeable future.

SPW LP is a member of IIROC and a registered investment dealer and SAM LP is an OSC registrant in the category of Portfolio Manager and Exempt Market Dealer, and as such both companies are required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of IIROC and of the OSC, respectively. During the year ended December 31, 2009, SAM LP and SPW LP were in compliance with the specified capital requirements.

Our operating activities have enabled us to generate positive cash flows from operating activities, as well as declare quarterly dividends and a special year end dividend.

## 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 and stock options.

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. In addition, a portion of Performance Fee revenue is earned by a wholly-owned foreign affiliate. 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 fair value of common shares, expected volatility and expected option life. Management reviews all inputs on a regular basis to ensure consistency of application and reasonableness. Details regarding stock options granted, including key inputs and assumptions are contained in note 4(b) to the Corporation's audited consolidated financial statements.

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, proprietary investments, fees receivable, accounts payable and accrued liabilities and compensation payable. In all cases, the carrying values approximate the relevant fair values due to their short-term nature. Proprietary investments are primarily recorded on the balance sheet at their fair values, except for certain proprietary investments which are classified as available for sale and are recorded at cost less permanent impairment, if any.

The maximum loss that the Corporation 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.

## Related Party Transactions

Most of the artwork displayed in our office area is owned by Eric Sprott, CEO of the Corporation and by Sprott Securities Ltd., a corporation wholly owned by Mr. Sprott. Until May 2009, this artwork was rented by the Corporation

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at a rental rate equal to 3% per annum of the original acquisition cost of such artwork. In May 2009, the agreement was terminated.

No other related party transactions occurred during the year.

## Changes in Accounting Policies

### Financial instruments – disclosures and presentation

In 2009, Section 3862, *Financial Instruments – Disclosures*, was amended by the CICA's Accounting Standards Board (AcSB) to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. The amendments became effective for the Corporation's 2009 annual consolidated financial statements and were adopted as at December 31, 2009. As these are disclosure items, they did not have a material impact on the Corporation's consolidated financial statements.

To make the disclosures required by Section 3862, the Corporation established a fair value hierarchy to classify its proprietary investments that reflects the significance of the inputs used in making the measurements. For further details, refer to Notes 2 and 3 to the financial statements.

On July 29, 2009, the AcSB amended Section 3855, *Financial Instruments – Recognition and Measurement*. The revised standard expanded the definition of Loans and Receivables to include debt securities not quoted in an active market. The standard also amended the impairment model for held to maturity financial assets such that charges to income for other than temporary impairment are recognized for credit losses only rather than on the basis of a write-down to fair value. The Corporation adopted these changes as of December 31, 2009, but the changes had no material impact on the financial statements of the Corporation.

## Future accounting changes

### International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace current Canadian GAAP followed by the Corporation. The Corporation 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. In 2009, the Corporation evaluated the impact of IFRS on its financial statements and determined that a changeover to IFRS would not have a material impact on the financial statements of the

Corporation. The Corporation continues to monitor new standards and amendments to existing IFRS standards and evaluate their impact.

## Outlook and Growth Initiatives

Each of our Portfolio Managers strives to generate outstanding investment returns for the Funds and Managed Accounts that they manage. Each Portfolio Manager or team employs their own style or methodology to achieve investment performance. Each may have a different view on the economy, markets, sectors and specific stocks. They use their own insight and knowledge and research supported by our talented team of analysts to construct the portfolios for the Funds and Managed Accounts that they manage.

In 2009, most of our long funds performed particularly well. All but the two smallest long funds beat their benchmarks, some by a very wide margin. Of particular note, the Sprott Gold and Precious Minerals Fund returned over 113% for the year compared with its benchmark, the S&P/TSX Global Gold Index, which returned approximately 7% for the year. Returns on most of our hedge funds were modest as short positions constrained results as stock markets rallied despite weak economic fundamentals in most developed countries, including Canada and the United States where most of our Funds are primarily invested.

The vast majority of our Funds and Managed Accounts have a Performance Fee component and our ability to generate Performance Fees is fundamental to our ability to produce value for the investors in our Funds and for our shareholders. For most of our Funds and Managed Accounts, any performance deficit, which occurs when a Fund's investment performance does not exceed the specified benchmark or threshold, must first be earned back before performance fees on that Fund or Managed Account are generated. Except for the Sprott Hedge Fund LP that has a 10% hurdle rate with a one-year deficit carry forward, all deficits continue until they are eliminated on a cumulative basis.

Mutual funds did not contribute to our performance fee revenue in 2009 primarily due to relative performance deficiencies carried forward. However, because most of the mutual funds out-performed their benchmarks in 2009, accumulated deficiencies narrowed, placing us in a better position to earn performance fees from these funds in 2010. The Sprott Hedge Fund LP also generated a modest positive return in 2009 but fell short of its 10% hurdle. However, only actual negative returns are carried forward so the hurdle rate for the fund in 2010 is 10%. Sprott Hedge Fund LP II has a small deficit to carry forward to 2010, while all of our

Offshore Funds and the Sprott Opportunities Hedge Fund earned Performance Fees in 2009. Given these metrics, we believe that the Corporation is well positioned to generate Performance Fees in 2010 and beyond.

In addition to our focus on investment performance, we have several key initiatives to leverage our brand name and grow the Corporation:

#### SAM LP:

##### Introduce new products

We continue to introduce new investment products in response to changing investor sentiment and evolving investments themes and to capitalize on our existing expertise. In early 2010, we completed our first flow-through fund, the Sprott 2010 Flow-Through Limited Partnership. The objective of this Fund is to provide for a tax-assisted investment in a diversified portfolio of Flow-Through Shares and other securities of issuers in the resource sector. We also completed an offering of the Sprott Physical Gold Trust – this vehicle is listed on both the Toronto Stock Exchange and on the NYSE Arca and holds physical gold bars in custody at the Royal Canadian Mint.

We recently hired Peter Loach as Executive Vice-President Product Development to help us evaluate and expand our product line up.

In February 2010, we announced that Scott Colbourne had joined SAM LP as a Senior Portfolio Manager. Scott is the first fixed-income specialist to join the SAM investment management team. His expertise will enable us to further diversify our product offering.

#### SPW LP:

##### Focus on Private Wealth management

As described earlier in this MD&A, during 2009 we completed a reorganization whereby SAMI was separated into two entities, SAM LP and SPW LP. The creation of SPW LP, with

its own identity, provides us with the platform to brand and grow our wealth management service offering. We believe that we have an excellent opportunity to build on our existing base of over 2,000 clients and approximately \$1 billion of revenue producing assets. We have expanded the SPW LP management team and are developing strategies to drive the growth of that business.

#### SCLP:

##### Opportunity to manage corporate assets through Sprott Consulting LP

Through Sprott Consulting LP (“SCLP”), we have introduced into our business operations the concept of providing management and administrative services to other companies. Currently, SCLP manages Sprott Resource Corporation (TSX:SCP), which invests in early stage corporate investments in the resource sector, and its subsidiary One Earth Farms Corp., a large scale corporate farm operating on First Nations farmland in the Canadian Prairie Provinces. Sprott Consulting LP has proven to be a valuable addition to our business, generating significant Performance Fees in 2008 and is positioned to be an avenue for revenue growth and business expansion.

At the end of 2009, the Corporation remains financially strong and, we believe, well positioned for continued success. Our cost structure ensures that the largest expenses, compensation and trailer fees, are correlated with revenues while fixed costs comprise a relatively low percentage of total revenues. Such a structure ensures that we are not dependent on outside financing and are able to generate positive cash flows to fund operations and pay dividends.

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

## AUDITORS' REPORT

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To the Shareholders of  
**Sprott Inc.**

We have audited the consolidated balance sheets of **Sprott Inc.** as at December 31, 2009 and 2008 and the consolidated statements of income, comprehensive income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada,  
March 8, 2010

## CONSOLIDATED BALANCE SHEETS

As at December 31 (\$ in thousands)	2009 \$	2008 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	49,010	89,888
Fees receivable	12,751	13,557
Other assets	2,342	800
<b>Total current assets</b>	<b>64,103</b>	<b>104,245</b>
Proprietary investments (Note 3)	28,004	13,008
Future income tax asset (Note 9)	1,289	1,481
Fixed assets, net (Note 6)	4,298	4,696
	33,591	19,185
<b>Total assets</b>	<b>97,694</b>	<b>123,430</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	4,546	5,625
Compensation and employee bonuses payable	9,192	21,811
Income taxes payable	7,323	16,480
<b>Total current liabilities</b>	<b>21,061</b>	<b>43,916</b>
Future income tax liability (Note 9)	493	-
<b>Total liabilities</b>	<b>21,554</b>	<b>43,916</b>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	40,105	40,105
Contributed surplus (Note 4)	3,820	1,524
Retained earnings	32,215	37,885
<b>Total shareholders' equity</b>	<b>76,140</b>	<b>79,514</b>
<b>Total liabilities and shareholders' equity</b>	<b>97,694</b>	<b>123,430</b>

See accompanying notes



Eric Sprott  
Director CEO,  
Sprott Inc.



James Roddy  
Director  
Chair of Audit Committee

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME  
AND RETAINED EARNINGS

For the years ended December 31 (\$ in thousands, except for per share amounts)	2009 \$	2008 \$
<b>Revenue</b>		
Management fees	88,023	123,970
Performance fees	12,981	47,922
Unrealized and realized gains (losses) on proprietary investments	5,032	(11,722)
Other income	1,489	5,587
	107,525	165,757
<b>Expenses</b>		
Compensation and benefits	30,294	46,823
Trailer fees	19,191	26,491
General and administrative	10,747	11,006
Donations	1,143	1,651
Amortization	988	574
<b>Total expenses</b>	<b>62,363</b>	<b>86,545</b>
Income before income taxes for the period	45,162	79,212
Provision for income taxes (Note 9)	13,332	27,076
<b>Net income and comprehensive income for the year</b>	<b>31,830</b>	<b>52,136</b>
Retained earnings, beginning of the year	37,885	123,173
Dividends declared	(37,500)	(142,150)
Dividend tax refund	-	4,726
<b>Retained earnings, end of the year</b>	<b>32,215</b>	<b>37,885</b>
<b>Basic and diluted earnings per share (Note 8)</b>	<b>\$ 0.21</b>	<b>\$ 0.36</b>

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (\$ in thousands)	2009 \$	2008 \$
<b>Operating Activities</b>		
Net income for the year	31,830	52,136
Add (deduct) non-cash items:		
Unrealized and realized (gains) losses on proprietary investments	(5,032)	11,722
Stock-based compensation	2,296	1,524
Amortization	988	574
Future income taxes	685	(3,701)
Other items	(88)	–
	30,679	62,255
Other assets	(1,542)	(462)
Fees receivable	806	41,355
Income taxes payable	(9,157)	7,361
Accounts payable and accrued liabilities	(1,079)	(1,746)
Compensation and employee bonuses payable	(12,618)	(102,265)
<b>Cash provided by operating activities</b>	<b>7,089</b>	<b>6,498</b>
<b>Investing Activities</b>		
Purchase of proprietary investments	(25,226)	(5,540)
Sale of proprietary investments	15,349	98,193
Purchase of fixed assets	(590)	(1,321)
Long-term investments	–	(151)
<b>Cash provided by (used in) investing activities</b>	<b>(10,467)</b>	<b>91,181</b>
<b>Financing Activities</b>		
Issuance of common shares	–	25,190
Dividend tax refund	–	4,726
Dividends paid	(37,500)	(132,000)
<b>Cash used in financing activities</b>	<b>(37,500)</b>	<b>(102,084)</b>
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(40,878)</b>	<b>(4,405)</b>
Cash and cash equivalents, beginning of the year	89,888	94,293
<b>Cash and cash equivalents, end of the year</b>	<b>49,010</b>	<b>89,888</b>
<b>Cash and cash equivalents:</b>		
Cash	17,223	33,424
Short-term deposits	31,787	56,464
	49,010	89,888
<b>Supplemental cash flow information</b>		
Income taxes paid	21,893	18,555

See accompanying notes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and December 31, 2008

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### Note 1: Corporate Activities

Sprott Inc. (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 (“Prospectus”) in each of the provinces and territories of Canada in respect of the initial public offering of 20 million common shares to be effected via a secondary offering by certain shareholders of the Company (the “Offering” or “IPO”). Common shares of the Company are traded on the Toronto Stock Exchange under the symbol SII.

On June 1, 2009, SAMI completed a corporate reorganization and transferred its discretionary portfolio management business to Sprott Asset Management LP (“SAM LP”) and its broker dealer services to Sprott Private Wealth LP (“SPW LP”). After the reorganization, SAMI was wound up into the Company. As a result of the reorganization, the Company is now the sole limited partner of SAM LP, SPW LP and Sprott Consulting LP. The reorganization had no impact on the consolidated financial statements. SAM LP is a portfolio manager and exempt market dealer and SPW LP is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”). SPW LP has a Type II introducing broker agreement with Cormark Securities Inc. (“Cormark”). Under the terms of the agreement, Cormark performs trading, clearing, segregation/safekeeping and recordkeeping services for SPW LP. Sprott Consulting LP provides management and administrative services to other companies.

### Note 2: Basis of Presentation and Significant Accounting Policies

#### Basis of presentation

The consolidated annual financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the accounts of the Company, its wholly owned subsidiaries as well as three limited partnerships in which the Company is the sole limited partner. The three limited partnerships are SAM LP, SPW LP and Sprott Consulting LP while the material wholly owned subsidiaries are Sprott Genpar Ltd. and SAMGENPAR Ltd. All intercompany accounts are eliminated on consolidation.

For the purposes of these consolidated financial statements, the acquisition of SAMI in the fiscal year ended December 31,

2008 has been accounted for using the continuity of interest method because the acquisition did not result in a substantive change in the owners’ interests, but was only a re-arrangement of legal interests. Under this method, financial statements of the combined company presented for prior periods are restated to reflect the financial position and results of operations as if the companies had been combined since their inception.

#### Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may vary from the current estimates. Management reviews these estimates periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and with the carrying broker, which are not subject to restrictions, and short-term interest bearing notes and treasury bills with a term to maturity of less than three months from the date of purchase.

#### Proprietary investments

Securities transactions and related revenue and expenses are accounted for on a trade-date basis.

#### Revenue recognition

The Company, through its wholly-owned subsidiaries SAMI, SAM LP and Sprott Consulting LP, receives management fees from the funds and managed accounts that it manages at annual rates ranging from 0.5% to 2.5% per annum of the respective net assets. The management fees accrue daily or monthly and are collected monthly or quarterly.

The Company also earns performance fees, calculated for each particular fund and/or managed account as a percentage of: (i) the fund’s/managed account’s excess performance over the relevant benchmark; (ii) the increase in net asset values over a predetermined hurdle, if any; or (iii) the net profit in the fund over the performance period. Performance fee revenue is recognized when earned, according to agreements in the underlying funds and managed accounts.

## Financial instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, permits an entity to designate any financial instrument as held for trading on initial recognition, even if that instrument would not otherwise satisfy the definition of held for trading set out in Section 3855. This is referred to as the fair value option. Financial instruments that are designated as held for trading must have reliable fair values since they are required to be presented at fair value. The Company has elected to apply the fair value option for certain financial assets and financial liabilities that do not otherwise meet the definition of held for trading set out in Section 3855. Financial assets designated as held for trading may include cash and cash equivalents, precious metal certificates, mutual funds, hedge funds and shares of publicly traded companies. Fair values for these investments are determined by reference to published bid price quotations, when available. Financial assets designated as held for trading are measured at fair value with changes in their fair value included in income in the period in which such changes occur.

The Company's financial instruments for which fair value cannot be reliably measured are designated as available for sale and recorded at cost less impairment, if any. Equity instruments classified as available for sale include investments in private companies. For available-for-sale financial investments, the Company assesses individually whether there is objective evidence that an equity investment is impaired at each reporting date. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement. If subsequent to initial recognition, fair value for available for sale investments becomes readily available, such assets remain classified as available for sale, are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is disposed of or becomes impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. The Company includes in this category amounts relating to short-term receivables and a secured note receivable. The Company

assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables are impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised through the income statement.

The Company's financial instruments are recorded on a trade date basis. Transaction costs related to financial assets, both held for trading and available for sale, are expensed as incurred.

## Precious metal bullion

Precious metal bullion includes investments in gold bullion. Investments in precious metal bullion are measured at fair value determined by reference to published price quotations, with unrealized and realized gains and losses recorded in income.

## Fixed assets

Fixed assets are recorded at cost and are amortized on a declining balance basis at rates ranging from 20% to 100% per annum. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease. The artwork is not amortized since it does not have a determinable useful life.

## Earnings per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year.

The Company applies the treasury stock method to determine the dilutive impact, if any, of stock options assuming they were exercised in a reporting period. The treasury stock method assumes that all proceeds received by the Company when options are exercised will be used to purchase Company shares at the average market price during the year.

## Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the consolidated balance sheet dates and non-monetary items are translated at exchange rates prevailing at the transaction dates. Revenue and expenses denominated in foreign currencies are translated at the rates of exchange in effect when the transactions occurred. Foreign exchange gains or losses are included in income for the year.

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## Income taxes

Income taxes are accounted for using the liability method. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using the substantively enacted tax rates and laws expected to apply to taxable income in the periods in which the temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates and laws is included in income in the period in which the change occurs. The amount of any future income tax assets recognized is limited to the amount that is more likely than not to be realized.

## Stock-based compensation

The Company uses the fair value method to account for stock-based transactions with employees and directors. Compensation expense is determined using the Black-Scholes option valuation model. The amount of compensation expense is recognized over the vesting period and recorded as contributed surplus. On the exercise of stock options for shares, the contributed surplus previously recorded with respect to the exercised options and the consideration paid is credited to capital stock.

## Variable interest entities

Hedge funds set up as limited partnerships, public mutual funds and offshore funds managed by SAM LP qualify as variable interest entities ("VIEs"). The Company has adopted the requirements of the CICA Handbook Accounting Guideline 15, *Consolidation of Variable Interest Entities* ("AcG-15"). AcG-15 defines a VIE as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is defined as the entity that is exposed to a majority of the VIE's expected losses or is entitled to a majority of the VIE's expected residual returns. The primary beneficiary is required to consolidate the VIE. The Company has determined that it does not meet the definition of primary beneficiary in respect of the hedge funds set up as limited partnerships nor of the public mutual funds or the offshore funds managed by it.

## Adoption of new accounting standards

### Financial instruments – disclosures and presentation

In 2009, Section 3862, *Financial Instruments – Disclosures*, was amended by the CICA's Accounting Standards Board

(AcSB) to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. The amendments became effective for the Company's 2009 annual consolidated financial statements and were adopted as at December 31, 2009. As these are disclosure items, they had no measurement effect on the Company's consolidated financial statements.

To make the disclosures required by Section 3862, the Company established a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset either directly or indirectly;

Level 3 – inputs for the asset that are not based on observable market data.

On July 29, 2009, the AcSB amended Section 3855, *Financial Instruments – Recognition and Measurement*. The revised standard expanded the definition of Loans and Receivables to include debt securities not quoted in an active market. The standard also amended the impairment model for held to maturity financial assets such that charges to income for other than temporary impairment are recognized for credit losses only rather than on the basis of a write-down to fair value. The Company adopted these changes as of December 31, 2009, the changes had no measurement impact on the consolidated financial statements of the Company.

## Future changes in accounting policies

### International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace current Canadian GAAP 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. In 2009, the Company evaluated the impact of IFRS on its financial statements and determined that a switchover to IFRS would not have a material impact on the financial statements of the Company. The Company continues to monitor new standards and amendments to existing IFRS standards and evaluate their impact.

### Note 3: Proprietary Investments

Proprietary investments consist of the following (\$ in thousands):

	December 31, 2009 \$	December 31, 2008 \$
<b>Precious metal bullion</b>		
Gold bullion	6,435	–
<b>Securities designated as held for trading</b>		
Public equities and share purchase warrants	4,581	5,050
Mutual funds and hedge funds	831	7,958
	5,412	13,008
<b>Loans and receivables</b>		
Secured note receivable	14,338	–
<b>Securities available for sale</b>		
Public equities	93	–
Private equities	1,726	–
	1,819	–
<b>Total proprietary investments</b>	<b>28,004</b>	<b>13,008</b>

#### Fair value disclosures

The table below sets forth information about the level within the fair value hierarchy prescribed by Section 3862 at which the Company's investments are measured at December 31, 2009 (\$ in thousands):

	Quoted price in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Total
Public equities	1,440	1,444	2,884
Common share purchase warrants	–	1,790	1,790
Mutual funds and hedge funds	831	–	831
Subtotal	2,271	3,234	5,505

Level 1 securities generally include securities traded on major exchanges, including the TSX and TSX.V as well as investments in redeemable mutual funds and hedge funds. Level 2 securities include common shares traded in over the counter markets and warrants valued using observable inputs. As at December 31, 2009, the Company does not have any financial instruments that are measured at fair value and are classified as Level 3; there were no transfers between levels during the year.

As at December 31, 2009, investments in public equities consisted primarily of investments in equities and share purchase warrants of companies in the gold and precious minerals sector.

Investments in mutual funds and hedge funds consisted entirely of investments in mutual funds and hedge funds managed by SAM LP.

Securities classified as loans and receivables consisted of a secured note receivable from a company in the gold sector paying 10% annual interest and maturing in 2014 and is recorded at amortized cost, less impairment, if any. As at December 31, 2009, fair value of this secured note receivable approximated its carrying value.

Securities classified as available for sale consisted of investments in equities of public and private companies in the gold and precious minerals sector.

As at December 31, 2008, investments in public equities consisted of an investment in Cadomin Capital Corporation (formerly Sprott Molybdenum Participation Corporation ("Sprott Moly")). Refer to Note 5(a) for further details. As at December 31, 2008, investments in mutual funds and hedge funds consisted entirely of investments in mutual funds and hedge funds managed by SAM LP.

### Note 4: Shareholders' Equity

#### (a) Capital stock and contributed surplus

Due to the application of continuity of interest accounting, all SAMI share transactions in the current and comparative reporting periods were restated accordingly.

Capital stock consists of the following:

	Number of shares (pre-IPO conversion factor)	Number of shares (post-IPO conversion factor)	Stated value \$ (in thousands)
<b>Authorized</b>			
<b>Unlimited common shares, without par value</b>			
<b>Issued</b>			
Balance, December 31, 2007	4,852,476	133,463,948	14,802
Issuance of common shares on exercise of stock options	601,217	16,536,052	25,303
Balance, December 31, 2008	5,453,693	150,000,000	40,105
Issuance of common shares on exercise of stock options	–	–	–
Balance, December 31, 2009	5,453,693	150,000,000	40,105

Contributed surplus relates to stock options expense and consists of the following:

	Stated value \$ (in thousands)
Balance, December 31, 2007	113
Exercise of 601,217 SAMI stock options	(113)
Contributed surplus related to SAMI stock options immediately prior to the completion of the IPO	–
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	1,524
Balance, December 31, 2008	1,524
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	2,296
Balance, December 31, 2009	3,820

#### (b) Stock option plans

On April 3, 2008, the Company adopted an option plan (the “Plan”) to provide incentives to directors, officers, employees and consultants of the Company and its wholly owned subsidiaries. The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares of the Company as at the date of grant of each option under the Plan. The options may be granted at a price that is not less than the market price of the Company’s common shares at the time of the grant. The options vest annually over a three-year period and may be exercised during a period not to exceed 10 years from the date of grant.

In the second quarter of 2008, the Board of Directors of the Company granted options to its directors and certain key employees. On May 6, 2008, 2,450,000 options were granted, with a fair market value of \$2.71 and an exercise price of \$10, expiring on May 6, 2018. On June 2, 2008, 100,000 options were granted, with a fair market value of \$2.49 and an exercise price of \$9.06, expiring on June 2, 2018. The fair value of the options granted in the second quarter of 2008 was determined using a weighted average risk free rate of 3.05% to 3.27%, an expected life of five years, weighted average expected volatility of 28% and an expected dividend yield of 1%. As at December 31, 2009, 850,000 options are exercisable.

During the fiscal year ended December 31, 2009, the Company recorded a compensation expense of \$2.3 million (2008 – \$1.5 million), with a corresponding increase to contributed surplus.

There were no stock options granted in the twelve months ended December 31, 2009.

#### (c) Objectives of managing capital

The Company’s objectives when managing capital are:

- To meet regulatory requirements and other contractual obligations;
- To safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders through the growth in assets under management and growth in management fees and incentive fees that will result in higher dividend payments to shareholders.

The Company's capital is comprised of equity, including capital stock, contributed surplus and retained earnings. The Company is the sole limited partner of three limited partnerships: SPW LP, SAM LP and Sprott Consulting LP. SPW LP is a member of IIROC and SAM LP is a registrant of the Ontario Securities Commission; as a result, both limited partnerships are required to maintain a minimum level of regulatory capital. To ensure compliance, senior management monitors regulatory and working capital on a regular basis. As at December 31, 2009, the Company's subsidiaries were in compliance with the capital requirements.

In the normal course of business, the Company, through its wholly-owned subsidiaries, generates adequate operating cash flow and has limited capital requirements.

The Company may adjust its capital levels in light of changes in business specific circumstances as well as overall economic conditions.

#### Note 5: Related Party Transactions

##### (a) Cadomin Capital Corporation (formerly Sprott Molybdenum Participation Corporation ("Sprott Moly"))

Prior to July 2009, Sprott Moly was a related party of the Company because SAM LP provided investment management services to it and the Company owned 3,976,000 or 10.08% of its issued and outstanding common shares. In July 2009, Sprott Moly underwent a corporate reorganization as a result of which it ceased to be a related party of the Company and was renamed to Cadomin Capital Corporation. As a result of this reorganization, the Company exchanged 3,976,000 shares or 10.08% of Sprott Moly for 3,976,000 shares of Cadomin Capital Corporation (now an unrelated company) and approximately \$1.76 per share in cash. The investment management contract between SAM LP and Sprott Moly was terminated immediately before the reorganization. In 2009, the Company earned \$23 thousand from Sprott Moly in form of management fees (2008-\$3 million).

##### (b) Artwork rental

Historically, the Company rented artwork from Mr. Sprott, Chief Executive Officer 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 amount paid to acquire the artwork displayed in the office area of the Company. For the year ended December 31, 2009,

the Company incurred an expense of \$0.3 million (2008 – \$1 million) in artwork rental fees to Mr. Sprott and Sprott Securities Ltd.

Commencing in May 2009, Mr. Sprott terminated the artwork rental contract with himself as well as Sprott Securities Ltd.

##### (c) Sale of certain proprietary investments

Certain proprietary investments sold as part of a corporate reorganization that took place before the IPO in May of 2008 were sold by SAMI to Mr. Sprott, at fair market value. The total value of proprietary investments sold to Mr. Sprott during the year ended December 31, 2008 amounted to approximately \$8 million. Fair market value was determined by reference to publicly available price quotations and, for investments in private equities, by reference to recent arm's-length transactions in the stock.

##### (d) Purchase of proprietary investments from Sprott Strategic Gold Master Fund Ltd.

In January 2009, the Company purchased certain portfolio investments from Sprott Strategic Gold Master Fund Ltd., pursuant to the compulsory redemption of all the holders of that fund. Some of those investments are investments in private companies for which there is no active market. Those investments were purchased for \$1.8 million, are classified as "available for sale" and are recorded at cost less any permanent impairment.

#### Note 6: Fixed Assets

Fixed assets consist of the following (\$ in thousands):

	December 31, 2009		
	Cost \$	Accumulated amortization \$	Net book value \$
Artwork	1,691	–	1,691
Furniture and equipment	1,739	1,077	662
Computer hardware and software	1,039	1,016	23
Leasehold improvements	3,068	1,146	1,922
	7,537	3,239	4,298

	December 31, 2008		
	Cost \$	Accumulated amortization \$	Net book value \$
Artwork	1,512	–	1,512
Furniture and equipment	1,684	793	891
Computer hardware and software	871	710	161
Leasehold improvements	2,880	748	2,132
	6,947	2,251	4,696

### Note 7: Lease Commitments

Future minimum annual rental payments under a non-cancellable lease which expires on December 31, 2013 for office premises, including operating costs, are as follows:

	\$ (in thousands)
2010	1,584
2011	1,584
2012	1,584
2013	1,584
	6,336

In 2009, a revolving term credit facility the Company previously had was cancelled by the Company.

### Note 8: Earnings per Share

For the year ended December 31, 2009, basic and diluted earnings per common share was \$0.21. For the year ended December 31, 2008, basic and diluted earnings per common share was \$0.36.

### Note 9: Income Taxes

The reconciliation of the Company's effective tax rate to the statutory tax rate is as follows:

	Year ended December 31, 2009 \$ (in thousands)
Income taxes at statutory tax rate (31.25%)	14,113
<b>Increase (decrease) in income taxes resulting from:</b>	
Non-taxable portion of capital gains	(760)
Rate differences and other	(21)
<b>Income tax provision as reported (effective tax rate of 29.5%)</b>	<b>13,332</b>

	Year ended December 31, 2008 \$ (in thousands)
Income taxes at statutory tax rate (33.5%)	26,536
<b>Increase (decrease) in income taxes resulting from:</b>	
Adjustment to tax rate on foreign accrual property income	700
Non-taxable portion of capital gains	(759)
Rate differences and other	599
<b>Income tax provision as reported (effective tax rate of 34.2%)</b>	<b>27,076</b>

The components of income tax expense are as follows (\$ in thousands):

	2009 \$	2008 \$
Current income tax expense	12,647	30,777
Future income tax expense (recovery)	685	(3,701)
<b>Provision for income taxes</b>	<b>13,332</b>	<b>27,076</b>

Future income tax assets and future income tax liability relate to the following (\$ in thousands):

	2009 \$	2008 \$
Foreign accrual property losses and capital losses	1,260	1,200
Non-capital losses	–	281
Other	29	–
<b>Future income tax asset</b>	<b>1,289</b>	<b>1,481</b>
Unrealized capital gains	(493)	–
<b>Future income tax liability</b>	<b>(493)</b>	<b>–</b>

As at December 31, 2009, the Company has approximately \$7.2 million of unused capital losses realized on the disposition of a subsidiary by means of a dividend-in-kind.

#### Note 10: Variable Interest Entities

Certain hedge funds and offshore funds are structured as limited partnerships in which the Company, through its subsidiary entities, holds general partner interests in the partnerships, which entitle the Company to participate in a portion of the carried interest of the partnerships. Some of the offshore funds managed by the Company structured as corporations and public mutual funds managed by the Company have holders of the equity at risk that lacks the characteristics of a controlling financial interest. The Company has a direct investment in several such offshore funds, and in certain public mutual funds. Management has concluded that the Company is not the primary beneficiary of these funds and, thus, is not required to consolidate these entities. The Company has no other significant interests in VIEs. The Company's maximum exposure to loss as a result of its involvement with VIEs is a function of the amounts invested in the funds, management fees and performance fees.

#### Note 11: Risk Management Activities

Financial instruments present a number of specific risks as identified below:

##### (a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in a decrease in the fair value of a financial instrument. The Company's financial instruments are

classified as either held for trading, available for sale or held to maturity and measured either at fair value or cost less permanent impairment, if any. Therefore, changes in fair value or permanent impairment, if any, affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments classified as held for trading and cost less permanent impairment, if any, for investments classified as available for sale or held to maturity. The Company manages market risk by regular monitoring of its proprietary investments.

The Company separates market risk into three categories: price risk, interest rate risk and foreign exchange risk.

##### Price risk

Price risk arises from the possibility that changes in the price of the Company's proprietary investments will result in changes in carrying value. For a listing of the Company's proprietary investments, refer to Note 3.

If the market values of proprietary investments that are held for trading increased by 5%, with all other variables held constant and before tax, this would have increased income before income taxes by approximately \$0.3 million (2008 – \$0.4 million); conversely, if the value of proprietary investments decreased by 5%, this would have decreased net income by the same amount.

If the market values of gold bullion increased by 5%, with all other variables held constant and before tax, this would have increased income before income taxes by approximately \$0.3 million (2008-nil); conversely, if the value of gold bullion decreased by 5%, this would have decreased net income by the same amount.

The Company's revenues are also exposed to price risk since both management fees and performance fees are correlated with assets under management, which fluctuates with changes in the market values of the assets in the funds and managed accounts managed by SAM LP and Sprott Consulting LP. Assets under management refer to the total assets of Sprott funds and managed accounts less total liabilities, on which management fees and performance fees are calculated.

##### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not hedge its exposure to interest rate risk as such risk is minimal. As part of its cash management program, the Company primarily invests in short-term debt securities

issued by the Government of Canada with maturities of less than three months.

In the second quarter of 2009, the Company, through its wholly-owned subsidiary, SAMGENPAR Ltd., invested approximately \$14 million in a secured note bearing an interest rate of 10% per annum and secured against the assets of the issuer. There is no interest rate risk that could immediately affect earnings associated with this investment as it is carried at amortized cost and management intends to hold the investment to maturity.

#### Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. The Company holds assets denominated in currencies other than the Canadian dollar. It is therefore exposed to currency risk, as the value of investments denominated in other currencies will fluctuate due to changes in exchange rates. The Company does not enter into currency hedging transactions.

As at December 31, 2009, approximately \$8.0 million or 8.2% (2008 – \$3.8 million or 3.1%) of total assets was invested in proprietary investments held for trading and precious metal bullion priced in U.S. dollars (“USD”). Furthermore, a total of \$0.5 million (2008 – \$0.8 million) of cash, \$7.6 million of accounts receivable (2008 – \$2.6 million) and \$0.2 million (2008 – \$0.3 million) of other assets were denominated in USD. As at December 31, 2009, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant and before tax, the increase or decrease, respectively, in income before income taxes would have amounted to approximately \$0.8 million (2008 – \$0.3 million).

#### (b) Credit risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2009, the Company’s most significant counterparty is Cormark, the carrying broker of SPW LP, which also acts as a custodian for most of the Company’s proprietary investments. Cormark is registered as an investment dealer subject to regulation by the IIROC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

The Company’s main exposure to credit risk relates to the secured note receivable, as disclosed in Note 3. The credit risk is managed by the terms of agreement, in particular, the note is secured and the issuer is subject to a number of financial covenants, which are monitored on a regular basis.

Credit risk is also managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties. The majority of accounts receivable relate to management and performance fees receivable from the funds and managed accounts managed by the Company.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company’s exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. As at December 31, 2009, the Company has \$49.0 million or 50.2% of its total assets in cash and cash equivalents. The majority of current assets reflected on the consolidated balance sheet are highly liquid. Approximately \$9 million or 32.6% of proprietary investments held by the Company are readily marketable and are recorded at their fair value. Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within several months. The Company’s management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis.

#### Note 12: Segmented Information

Management has determined that the Company’s dominant industry segment is investment management services in Canada. Substantially all of the Company’s assets are located in Canada.

#### Note 13: Comparative Audited Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the current year’s presentation.

#### Note 14: Subsequent Events

On January 15, 2010, 50,000 stock options were granted to a director of the Company. The stock options have an exercise price of \$4.85, vest over three years and expire in ten years.

In February 2010, a dividend of \$0.025 per common share was declared for the quarter ended December 31, 2009.

In addition, in March 2009, the Company’s Board of Directors declared a special dividend of \$0.04 per common share following receipt of performance fees for the year ended December 31, 2008.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME,  
COMPREHENSIVE INCOME AND RETAINED EARNINGS FOR THE  
THREE MONTHS ENDED DECEMBER 31, 2009

For the three months ended (\$ in thousands, except for per share amounts)	December 31, 2009 \$	December 31, 2008 \$
<b>Revenue</b>		
Management fees	23,052	21,720
Performance fees	10,614	42,368
Unrealized and realized gains (losses) on proprietary investments	1,465	(7,413)
Other income	615	1,027
	<b>35,746</b>	<b>57,702</b>
<b>Expenses</b>		
Compensation and benefits	9,269	17,510
Trailer fees	5,099	4,413
General and administrative	2,293	3,209
Donations	282	655
Amortization	352	192
<b>Total expenses</b>	<b>17,295</b>	<b>25,979</b>
Income before income taxes for the period	18,451	31,723
Provision for income taxes	5,138	11,356
<b>Net income and comprehensive income for the period</b>	<b>13,313</b>	<b>20,367</b>
Retained earnings, beginning of the period	22,652	21,268
Dividends declared	(3,750)	(3,750)
<b>Retained earnings, end of the period</b>	<b>32,215</b>	<b>37,885</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.09</b>	<b>\$ 0.14</b>

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE  
THREE MONTHS ENDED DECEMBER 31, 2009

For the three months ended (\$ in thousands)	December 31, 2009 \$	December 31, 2008 \$
<b>Operating Activities</b>		
Net income for the period	13,313	20,367
Add (deduct) non-cash items:		
Unrealized and realized (gains) losses on proprietary investments	(1,465)	7,412
Stock-based compensation	574	574
Amortization	352	192
Future income taxes	584	(3,434)
Other items	(64)	-
	13,294	25,111
Other assets	54	619
Fees receivable	(9,261)	(8,298)
Income taxes payable	4,532	13,561
Accounts payable and accrued liabilities	(605)	1,181
Compensation and employee bonuses payable	1,143	10,146
<b>Cash provided by operating activities</b>	<b>9,157</b>	<b>42,320</b>
<b>Investing Activities</b>		
Purchase of proprietary investments	(89)	-
Sale of proprietary investments	752	-
Purchase of fixed assets	(244)	(77)
<b>Cash provided by (used in) investing activities</b>	<b>419</b>	<b>(77)</b>
<b>Financing Activities</b>		
Dividends paid	(3,750)	(3,750)
<b>Cash used in financing activities</b>	<b>(3,750)</b>	<b>(3,750)</b>
Net increase in cash and cash equivalents during the period	5,826	38,493
Cash and cash equivalents, beginning of the period	43,184	51,395
<b>Cash and cash equivalents, end of the period</b>	<b>49,010</b>	<b>89,888</b>
<b>Cash and cash equivalents:</b>		
Cash	17,223	33,424
Short-term deposits	31,787	56,464
	49,010	89,888
<b>Supplemental cash flow information</b>		
Income taxes paid	48	1,210

## CORPORATE INFORMATION

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### Head Office

Sprott Inc.  
Royal Bank Plaza, South Tower  
200 Bay Street  
Suite 2700, P.O. Box 27  
Toronto, Ontario M5J 2J1  
Telephone: 416-362-7172  
Toll-Free: 1-888-362-7172  
www.sprottinc.com

### Directors & Officers

Eric S. Sprott, CEO & Director  
Jack C. Lee, Chairman  
Peter Hodson, Director  
Allan Jacobs, Director  
Mark McCain, Director  
James T. Roddy, Director  
Marc Faber, Director  
Kevin Bambrough, President  
Steven Rostowsky, Chief Financial Officer  
Kirstin McTaggart, Corporate Secretary

### Transfer Agent & Registrar

Equity Transfer & Trust Company  
200 University Avenue, Suite 400  
Toronto, Ontario M5H 4H1  
Toll Free: 1-866-393-4891  
www.equitytransfer.com

### Legal Counsel

Heenan Blaikie LLP  
2500-333 Bay Street  
Toronto, Ontario M5H 2T4

### Auditors

Ernst & Young LLP  
Ernst & Young Tower  
P.O. Box 251, 222 Bay Street  
Toronto-Dominion Centre  
Toronto, Ontario M5K 1J7

### Investor Relations

Shareholder requests may be directed to Investor Relations by e-mail at [ir@sprott.com](mailto:ir@sprott.com) or via telephone at 416-203-2310 or toll-free at 1-877-403-2310.

### Stock Information

Sprott Inc. common shares are traded on the Toronto Stock Exchange under the symbol "SII".

### Annual Meeting

May 12, 2010 at 4:00 p.m. EDT  
The Design Exchange  
234 Bay Street  
Toronto, Ontario M5K 1B2