

# Sprott Inc.

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*Report to Shareholders*

JUNE 30

2008





## Q2 2008 LETTER TO SHAREHOLDERS

July 31, 2008

Dear Shareholders,

In our first letter to shareholders as a public company, following our successful initial public offering in May, I am pleased to report that our business continues to perform solidly despite turbulent equity markets.

Our assets under management, through our ownership of Sprott Asset Management Inc. ("SAM"), rose to \$7.7 billion at quarter end, an increase of 14% compared to the end of March 2008, up 24% since December 31, 2007 and up 50% since June 30, 2007. Strong investment performance along with solid net sales of our Funds across multiple channels, particularly our offshore and domestic hedge funds, contributed to our continued growth in AUM.

Here are some highlights of our recent investment performance. Our four largest funds<sup>1</sup> returned between 13% and 28% in the first six months of 2008. In comparison, the TSX Composite Total Return Index increased 6%, the S&P 500 Index declined 13% and the MSCI World Index was down 8%. The Sprott Canadian Equity Fund continues to rank #1 in Canada for its 10-year annualized net return of 30.11% as of June 30, 2008 and the Sprott Energy Fund was ranked #2 in Canadian mutual funds over \$100 million in the second quarter of 2008<sup>2</sup>. Two of our hedge funds made it into Barron's Top 75 Hedge Funds in April 2008.

The rise in our assets under management led to increased management fees and higher revenue in the current quarter. Management fees rose by 38%, or \$10.1 million, year-over-year to \$36.6 million, and total revenue increased by \$35.8 million to \$39.5 million. Revenue for the second quarter of 2007 was unusually low due to a dilution loss on the initial public offering of Sprott Molybdenum Participation Corporation and losses on proprietary investments. The dilution loss had no net impact on the annual earnings for 2007.

Our net income for the quarter was \$11.4 million, or \$0.08 per share, and our Board of Directors declared our first quarterly dividend of \$0.025 for the period ended June 30, 2008.

In addition to continued strong investment performance, we are focused on several growth strategies:

### Capitalizing on our brand

Our brand name and Funds are still at the early stages of penetration within the Canadian and global asset management industries. As we continue to evolve, grow and develop our business, we will be able to build upon our experience and expertise to achieve the same success on an international scale as we have had to date in Canada. Our offshore accounts now represent 18% of AUM compared to 13% at the end of June 2007.

### Expansion of our investment team

Our strategy includes the opportunistic hiring of additional portfolio management talent. Over the past 12 months, SAM has hired Allan Jacobs and Peter Imhof to focus on small cap equities, and Charles Oliver and Jamie Horvat to focus on resource stocks. We believe the addition of experienced investment professionals with proven reputations can attract immediate asset inflows, which we can secure on favourable terms.

## Increased marketing efforts

During 2007, we established our wholesaler sales effort to further support our Fund sales to the retail financial advisor and dealer industry. We currently have 12 sales representatives (eight retail and four wholesale) and expect to continue to expand this team.

## Introduction of new products

Our track record and reputation as an innovator provide a unique base for the launch of new investment products. In February 2008, we launched the Sprott Global Market Neutral Fund in order to tap into the growth in demand for absolute return funds. The Fund is managed by Sylvain Ratelle, an Investment Strategist with over 20 years of experience in the investment industry. We plan to launch at least one new fund by the end of the year.

## Sprott Consulting L.P. and Sprott Molybdenum Participation Corporation (“Sprott Moly”)

Through our management of Sprott Resource Corp. by Sprott Consulting L.P. and our management of Sprott Moly, we have introduced into our business operations the concept of providing management and administrative services to public companies.

Sprott Consulting L.P. (“SCLP”) offers us the opportunity to manage corporate assets on a permanent basis, to enter into private equity style investments and to participate as a manager in corporate transactions. Currently, SCLP manages Sprott Resource Corp. (“SRC”), a publicly traded company listed on the Toronto Stock Exchange focused on private equity investments in the natural resource sector. In its first year under SCLP management, SRC acquired an equity position in PBS Coals Corporation, a private company which produces metallurgical coal in Pennsylvania. In addition, it acquired a prospective phosphate property in Peru and is taking steps to develop this property.

Sprott Moly (TSX:MLY) provides a vehicle to invest in molybdenum assets, which is currently not possible through an exchange. In addition, it will provide investors with a diversified portfolio of securities of private and public companies that explore for, mine and/or process molybdenum. When Sprott Moly went public in April 2007, SAM agreed to manage the Corporation’s activities, including any purchase and sale of molybdenum assets.

## Capitalizing on benefits associated with being a public company

On May 15, 2008, Sprott Inc. listed on the Toronto Stock Exchange through a secondary offering of common shares. Becoming a public company should result in an increase in public awareness of our business, and assist us with our goals of reaching new potential Fund investors and continuing to increase our AUM.

With the near-term outlook for equity market remaining highly uncertain, we are focused on protecting our fundholders’ investments and believe our proven strategies position our portfolios well for the current environment.

I look forward to updating you on our progress in the coming quarters as we work to deliver strong investment performance for our clients and increasing returns for our shareholders.

Yours sincerely,



Eric Sprott  
President and Chief Executive Officer

<sup>1</sup> The top four funds based on AUM as at June 30, 2008 were Sprott Canadian Equity Fund, Sprott Offshore Fund, Ltd., Sprott Hedge Fund L.P. and Sprott Hedge Fund L.P. II

<sup>2</sup> Source: globefund

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# Management's Discussion & Analysis

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This interim Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of June 30, 2008 compared with December 31, 2007, and the results of operations for the three month and six month periods ended June 30, 2008, compared with the corresponding periods in 2007.

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. ("SAM"). On May 8, 2008, the Company 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 Company ("the Offering").

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 and the notes thereto. This MD&A should also be read in conjunction with the MD&A and audited annual consolidated financial statements of SAM for the years ended December 31, 2007, 2006 and 2005, and the notes thereto contained in the Prospectus.

## 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. 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.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") requiring estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of these statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates as a result of various factors. For the purposes of the unaudited interim consolidated financial statements, the acquisition of SAM for the three and six month periods ended March 31, 2007 and June 30, 2007, respectively, and as at December 31, 2007 has been accounted for using the continuity of interests method of accounting. 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.

## 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.

The Adjusted Base EBITDA definition used in the Prospectus has been amended and re-named as "Base EBITDA" as this term more properly describes the presentation thereof. The measure, as defined below, adjusts for non-recurring items and other items that are non-core to our business. The measure no longer adjusts for other income. Other income consists of redemption fees, foreign exchange on fees receivable and interest income. These income components are recurring and are correlated with net sales, the performance of our Funds and ongoing management of our capital. We feel that the above amendments to the definition make it more useful and simplify the presentation and analysis of our financial performance.

# Management's Discussion & Analysis

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Our key performance indicators include:

## *Assets Under Management*

Assets Under Management or AUM refers to the total assets of our Funds and Managed Accounts (as both such terms are hereinafter defined) 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 AUM and our investment performance.

## *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 continues to be an important factor in our success. Growth in AUM resulting from positive investment performance increases the value of the assets that we manage for our clients and we, in turn, benefit from higher fees. Alternatively, poor absolute and/or relative investment performance will likely lead to a reduction in our AUM and, hence, our fee revenue.

## *Net Sales*

AUM increases through 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 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 and certain non-cash expenses, 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 impairment loss recognized in 2007 on investments held in a subsidiary company, such company having been disposed of in early 2008, prior to the closing of the Offering; (ii) the dilution loss related to the initial public offering of Sprott Molybdenum Participation Corporation in April 2007; (iii) 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; (iv) the bonus compensation arrangements that became effective upon completion of the Offering as if they had been in place in prior periods; and (v) Performance Fees and Performance Fee-related bonuses. Management Fees are earned throughout the year. With the exception of one Fund and Performance Fees attributable to redeemed units (together 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) and (ii) 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.

# Management's Discussion & Analysis

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## HIGHLIGHTS

Effective May 15, 2008 the Company acquired all of the outstanding shares of SAM pursuant to the terms of a share exchange agreement among SAM, the shareholders of SAM and the Company. SAM is an independent asset management company dedicated to achieving superior returns for our clients over the long term. As at June 30, 2008 we had approximately \$7.7 billion of Assets Under Management in our various investment funds ("Funds") and discretionary managed accounts and management of certain public companies (collectively, "Managed Accounts").

Financial highlights for the three month period ended June 30, 2008 were:

- Assets Under Management increased by \$925 million to \$7.7 billion at June 30, 2008 or 13.6% from March 31, 2008 and by \$2.6 billion from June 30, 2007. Net sales in the quarter were \$259 million with investment performance of \$666 million accounting for the balance of the \$925 increase in AUM for the quarter.
- Management Fees for the quarter and six month period ended June 30, 2008 of \$36.6 million and \$69.4 million, respectively, represents an increase of \$10.1 million (37.9%) and \$20.3 million (41.3%) over the corresponding periods in 2007.
- Base EBITDA for the quarter and six months to June 30, 2008 was \$17.2 million and \$33.8 million, respectively. On a comparable basis, had the bonus pool program that was implemented effective in 2008 been in effect for 2007, and everything else remaining constant, Base EBITDA would have been \$12.5 million and \$22.9 million for the quarter and six months ended June 30, 2007. In the first quarter of 2008, realized and unrealized gains on proprietary investments were \$8.2 million while in the second quarter we recorded realized and unrealized losses on our proprietary investments totaling to \$2.8 million. Thus, while net income, and hence earnings per share, were higher in the first quarter than in the second quarter, after adjusting for the impact of gains and losses on proprietary investments described above, and the impact of Crystallized Performance Fees, base EBITDA was higher in the second quarter of 2008 than in the first quarter of the year.
- Net income for the three months and six months ended June 30, 2008 is \$11.4 million and \$28.1 million, respectively and represents earnings per share (basic and diluted) of \$0.08 and \$0.20. Had the 150 million issued and outstanding shares been outstanding for the full six month period ended June 30, 2008, earnings per share for the quarter and six months then ended would have been \$0.08 and \$0.19, respectively.

## OVERVIEW

The Company, through its wholly-owned subsidiary, SAM, 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. As at June 30, 2008, we had over 93,000 client accounts comprised primarily of retail, high net worth and, to a lesser extent, institutional investors who subscribe to our investing strategy and process. As at June 30, 2008, we managed approximately \$7.7 billion in assets among our various Funds and Managed Accounts. We do not consider either these different types of clients or the different investment vehicles to be distinct reportable business segments for accounting purposes as all accounts are managed in a similar manner, with a common focus on generating superior investment returns for our clients.

We derive our revenue primarily from Management Fees earned from the management of our Funds and Managed Accounts and from Performance Fees earned from the investment of the AUM of our Funds and Managed Accounts. Our Management Fees are calculated as a percentage of AUM. Our Performance Fees are calculated as a percentage of the return earned by our Funds and Managed Accounts. Accordingly, the growth in our Management 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 trailer fees and compensation and benefits. 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 1% of the value of the assets held in the respective Fund by the dealer's clients. With respect to compensation and benefits, most employees are paid a relatively modest base salary but are entitled to share in a bonus pool the size of which is tied directly to the individual performance and the overall financial performance of the Company. 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.

# Management's Discussion & Analysis

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## *Metrics of Our Business*

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 1.0% to 2.5% among series of units of the respective Fund's and Managed Account's average daily net assets. Management Fees accrue daily and are payable monthly. 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. The majority of our Performance Fees are determined in relation to a benchmark. Performance Fees for all but one of our Funds are calculated on a cumulative basis at the end of each fiscal year. For the Sprott Global Market Neutral Fund, Performance Fees are calculated on a cumulative basis at the end of each calendar quarter.

AUM fluctuates as a result of two factors: new net sales (Funds and Managed Accounts sales less redemptions or net 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 growth of our Management Fees is generally less than the rate of growth of our AUM. This trend is primarily a result of two factors. Firstly, multi-series or multi-class structures are offered in some of our Funds whereby the Management Fee differs among the applicable series or classes. Secondly, offshore Fund Management Fees are generally at a lower rate than our Mutual Funds and Canadian Hedge Funds, but we do not pay trailer fees on our offshore Funds. As at the end of June 2008, our offshore Funds accounted for over 18% of AUM as compared with 13% at June 30, 2007.

An investment in our Funds is intended to be a long-term investment. While unit holders may request a redemption of their units of a Fund, any units held for less than a prescribed period of time, may be surrendered for redemption, subject to an early redemption fee of up to 3% of the aggregate net asset value of the units being surrendered, which is payable to SAM.

Performance Fees for most of our Funds and Managed Accounts are determined as of December 31 each year. They are therefore only recognized when earned and are not accrued in our financial statements during the 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 as manager of the Funds ("Crystallized Performance Fees"). These Crystallized Performance Fees are accrued for in the financial statements of SAM for the appropriate month.

We have been successful in growing our AUM without incurring deferred sales charges for sales of units of our Funds. However, among the more significant expenses associated with the distribution of most of our domestic investment products are trailer fees. A dealer that distributes units of a Fund may receive an annual trailer fee of 1% of the value of assets held in the respective Fund by the dealer's clients. Trailer fees are accrued monthly and paid by us from Management Fees, either monthly or quarterly. There is no trailer fee for the sales of our offshore investment products, as these are sold through our internal sales force. The significant increase in trailer fees over the past several years is reflective of the increase in domestic Fund sales through the advisor and dealer channel.

General and administration expenses have also increased over time as a result of the addition of employees, office space, technology, and other related infrastructure required to support the growth of our business. However, total operating expenses (including salaries but excluding bonuses, trailer fees and stock-based compensation) represent approximately 25% of our Management Fee revenue.

Historically, a significant percentage of our assets were held in proprietary investments, which primarily included investments in gold and silver bullion as well as Funds managed by us. These investments were recorded at fair market value with associated gains and losses recorded in the statement of income. Investments in gold and silver were a means of investing the Company's excess capital while investments in the Funds resulted from our providing seed capital on the launch of proprietary Funds. We will continue to seed our Funds in the future, as appropriate. Subsequent to SAM's December 31, 2007 year end, we disposed of a majority of our proprietary investments, including gold and silver bullion, as part of the reorganization we undertook in connection with the Offering.

# Management's Discussion & Analysis

## SELECTED ANNUAL FINANCIAL INFORMATION

	<i>As at December 31</i>		
	2005	2006	2007
	<b>Assets Under Management</b> (at period end)		
Assets Under Management ( <i>in \$000's</i> )	\$2,859,233	\$4,239,291	\$6,215,273
	<b>Balance Sheet Information</b> (at period end)		
Total Assets	123,147	248,380	280,873
Total Liabilities	24,682	131,873	142,785
Shareholders' Equity	98,466	116,506	138,088
	<b>Income Statement Information</b> (at period end)		
Total Revenue	88,947	198,626	227,620
Net Income	24,839	34,786	42,281

## SUMMARY FINANCIAL INFORMATION

	As at June 30, 2008	As at December 31, 2007
<i>Balance Sheet Information</i>		
Total Assets	\$96,556,139	\$280,872,838
Total Liabilities	34,726,036	142,785,169
Shareholders' Equity	61,830,103	138,087,669

# Management's Discussion & Analysis

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
<b>Assets Under Management (at period end)</b>				
Assets Under Management ( <i>in \$000's</i> )	\$7,726,326	\$5,150,827	\$7,726,326	\$5,150,827
<b>Income Statement Information</b>				
<b>Revenue</b>				
Management fees	36,627,349	26,559,536	69,390,612	49,107,910
Crystallized Performance Fees	3,991,360	312,069	4,296,418	345,779
Unrealized and realized gain (loss) on proprietary investments	(2,753,506)	(10,619,620)	5,396,118	(6,564,541)
Dilution loss related to Sprott Molybdenum Participation Corporation	–	(11,808,172)	–	–
Impairment of long term assets	–	(1,137,945)	–	(1,137,945)
Other income	1,440,947	373,177	3,060,621	562,045
Interest income	193,096	8,064	484,334	427,519
<b>Total revenue</b>	<b>39,499,246</b>	<b>3,687,109</b>	<b>82,628,103</b>	<b>42,740,767</b>
<b>Expenses</b>				
Compensation and benefits	11,281,865	5,887,945	19,800,570	10,528,874
Trailer fees	7,947,954	6,131,877	15,055,607	11,360,795
General and administration	2,845,916	1,053,009	5,074,699	2,343,138
Donations	365,830	29,400	690,830	30,900
Amortization	172,100	219,846	113,301	388,165
Interest expense	–	728,656	–	739,899
<b>Total expenses</b>	<b>22,613,665</b>	<b>14,050,733</b>	<b>40,735,007</b>	<b>25,391,771</b>
Income (loss) before income taxes for the period	16,885,581	(10,363,624)	41,893,096	17,348,996
Provision for (recovery of) income taxes	5,494,835	(2,687,360)	13,792,835	6,238,000
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>11,390,746</b>	<b>(7,676,264)</b>	<b>28,100,261</b>	<b>11,110,996</b>
<b>EBITDA AND BASE EBITDA</b>				
	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
<b>Net income (loss)</b>	<b>\$11,390,746</b>	<b>\$(7,676,264)</b>	<b>\$28,100,261</b>	<b>\$11,110,996</b>
Other expenses <sup>1</sup>	547,879	948,502	489,080	1,128,064
Provision for (recovery of) income taxes	5,494,835	(2,687,360)	13,792,835	6,238,000
<b>EBITDA</b>	<b>17,433,460</b>	<b>(9,415,122)</b>	<b>42,382,176</b>	<b>18,477,060</b>
Unrealized and realized (gain) loss on proprietary investments	2,753,506	10,619,620	(5,396,118)	6,564,541
Dilution loss relating to Sprott Molybdenum Participation Corporation	–	11,808,172	–	–
Impairment of long term assets	–	1,137,945	–	1,137,945
Discretionary Bonus Adjustment <sup>2</sup>	–	(1,425,702)	–	(3,046,176)
Crystallized Performance Fees net of Performance Fee related bonus pool <sup>3</sup>	(2,993,520)	(234,052)	(3,222,313)	(259,334)
<b>Base EBITDA</b>	<b>17,193,446</b>	<b>12,490,861</b>	<b>33,763,745</b>	<b>22,874,036</b>

<sup>1</sup> Includes interest, amortization and non-cash stock-based compensation expense.

<sup>2</sup> Adjustment required to bonus compensation arrangement assuming that arrangement had been in place in prior periods (2007)

<sup>3</sup> Performance Fee related bonus pool is equal to 25% of Performance Fee Revenue and assumes that the Performance Fee related bonus pool program was in place in prior year.

# Management's Discussion & Analysis

## RESULTS OF OPERATIONS

Three and six months ended June 30, 2008 compared to three and six months ended June 30, 2007

### Overall Performance

AUM increased to \$7.7 billion at June 30, 2008 compared with \$6.8 billion at March 31, 2008. Net sales for the quarter ended June 30, 2008 totaled \$259 million that, combined with market value appreciation of \$666 million due to strong investment performance resulted in the \$925 million increase in AUM for quarter. Average AUM for the three months to June 30, 2008 was \$7.26 billion compared with \$4.90 billion in the comparable period in 2007.

Revenues for the second quarter of 2008 totaled to \$39.5 million, an increase of \$35.8 million (971.3%) over the same period in the prior year. Management Fees increased by \$10.1 million (38%), while average AUM increased by 48.3% compared with the second quarter of 2007. Revenues for the second quarter of 2007 were unusually low due to a dilution loss on the initial public offering of Sprott Molybdenum Participation Corporation (as explained in greater detail in Note 7 to the accompanying unaudited interim consolidated financial statements) and losses on proprietary investments. The dilution loss was a one time reversal of gains related to investments held by Sprott Molybdenum Participation Corporation booked in the first quarter of 2007 and had no net impact on the annual earnings in 2007. Crystallized Performance Fees for the three and six month periods ended June 30, 2008 were \$4.0 million and \$4.3 million, respectively, as compared to \$0.3 million and \$0.3 million, respectively, for the three and six month periods ended June 30, 2007. The largest contributors to the Crystallized Performance Fees in 2008 were the Sprott Offshore Funds.

Expenses amounted to \$22.6 million in the three month period ended June 30, 2008, which is an increase of \$8.6 million or 60.9% as compared with the same three month period in 2007. A large portion of the increase relates to compensation, while trailer fees and other general and administration expenses also increased substantially.

Similarly, for the six month period ended June 30, 2008, expenses totaling \$40.7 million were \$15.3 million (60.4%) higher than for the first six months of 2007.

Net income of \$11.4 million for the three months ended June 30, 2008 compares with a loss of \$7.7 million in the corresponding period in 2007 mainly as a result of the 2007 investment and dilution losses described above. For the six months ended June 30, 2008 net income of \$28.1 million is 152.9% higher than the net income of \$11.1 million for the six months ended June 30, 2007.

### Assets Under Management

On an interim quarterly basis, our primary source of revenue is Management Fees. The amount of Management Fees depends on the level of AUM in the various Funds and Managed Accounts that we manage.

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

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007	12 months ended December 31, 2007
<i>\$ millions</i>					
AUM, beginning of period	6,801	4,648	6,215	4,239	4,239
Net sales	259	482*	561	621*	1,350
Market value appreciation of portfolios	666	21	950	291	626
AUM, end of period	7,726	5,151	7,726	5,151	6,215

\* Includes the initial public offering of Sprott Molybdenum Participation Corporation.

Net sales of our Funds averaged \$86.3 million per month for the quarter and \$93.5 million for the six months ended June 30, 2008. Net inflows accounted for 28% and 37% of the increase in AUM for the quarter and six month period, respectively. Investment performance

# Management's Discussion & Analysis

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continues to be strong with fifteen of our twenty-one funds returning between 6.6% and 28.2% for the six months ended June 30, 2008. Market value appreciation accounted for \$666 million (72%) and \$950 million (63%) of the increase in AUM for the quarter and six months to June 30, 2008, respectively. In aggregate AUM increased by 24.3% to June 30, 2008 from \$6.2 billion at December 31, 2007 and by 50.0% over the past 12 months.

## Revenue

Total revenues increased from \$3.7 to \$39.5 million, or by \$35.8 million (971.3%) for the quarter ended June 30, 2008 as compared with the quarter ended June 30, 2007. For the six months ended June 30, 2008, total revenues were \$82.6 million or \$39.9 million (93%) higher than in the corresponding period in 2007.

Management fees increased from \$26.6 to \$36.6 million or by 38% in the second quarter of 2008 as compared to the second quarter of 2007, as average AUM increased by 48.3% over the same period. Similarly, for the six months to June 30, 2008, Management Fees of \$69.4 million were \$20.3 (41.3%) more than Management Fees in the first six months of 2007, as average AUM rose by 48.5%. Management fee margins remained fairly constant at 2% for the three months and six months ended June 30, 2008, slightly lower than the margins realized in the corresponding periods in 2007 at 2.09% and 2.17%, respectively.

Crystallized Performance Fees for the three and six month periods ended June 30, 2008 were \$4.0 million and \$4.3 million, respectively, as compared to \$0.3 million and \$0.3 million, respectively, for the three and six month periods ended June 30, 2007. The largest contributors to the Crystallized Performance Fees in 2008 were the Sprott Offshore Funds.

Gains (losses) from investments totaled to a net loss of \$2.8 million, for the quarter ended June 30, 2008 and a gain of \$5.4 million, for the year-to-date (June 30). As described in greater detail in the Prospectus, as at December 31, 2007, SAM had substantial proprietary investments, the majority of which were sold in anticipation of the Offering. However, we have retained investments in certain Funds that, on a mark-to-market basis, resulted in a net loss from investments for the quarter.

In the three and six month periods ended June 30, 2007, realized and unrealized losses totaled to \$10.6 million and \$6.6 million, respectively.

As at March 31, 2007, SAM generated unrealized gains of approximately \$11.8 million from the appreciation in the value of investments held by Sprott Molybdenum Participation Corporation, a wholly-owned subsidiary of SAM at that time. In April 2007, Sprott Molybdenum Participation Corporation underwent an initial public offering and ceased to be a subsidiary of SAM. Since the entire amount of the gain was passed on to new shareholders of Sprott Molybdenum Participation Corporation upon the completion of its initial public offering, an offsetting dilution loss of the same amount, recorded in April 2007, eliminated all the gains previously realized.

Other income increased by 286.1% to \$1.4 million and by 444.6% to \$3.1 million for the three and six month periods ended June 30, 2008 compared with the corresponding periods in 2007. The increase is mainly due to early redemption fees, foreign exchange gains on fees receivable from offshore funds and to commissions earned by SAM as part of the selling group for the Sprott Inc. initial public offering.

## Expenses

Total expenses for the three month and six month period ended June 30, 2008 were \$22.6 million and \$40.7 million compared with \$14.1 million and \$25.4 million for the corresponding periods in 2007. Changes in specific categories are described in the following discussion:

### *Compensation & Benefits*

As a private company we paid employees salaries as well as a quarterly bonus (based on Company performance and individual contribution) for the first three quarters of the year. At year-end, all remaining pre-tax net earnings, including Performance Fees, could be paid to employees and shareholders. For 2008, our Employee Bonus Pool will be comprised of two components:

- 25% of Management Fees less operating expenses (operating expenses consist of trailer fees, salaries and benefits, excluding bonuses under the Employee Bonus Pool, occupancy costs, general and administrative and business development expenses; and
- 25% of Performance Fees earned for the year.

# Management's Discussion & Analysis

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Compensation and benefits expense for the three and six months ended June 30, 2008 amounted to \$11.3 and \$19.8 million, respectively. The same expense category for the three and six months ended June 30, 2007 was \$5.9 and \$10.5 million, respectively. The increase in compensation and benefits of \$5.4 million (91.6%) and \$9.3 million (88.1%) for the three and six months ended June 30, 2008 as compared with the same periods in 2007 reflects a combination of increased headcount, including several investment professionals, as well as a monthly accrual to the Employee Bonus Pool based on Management fees and Performance fees earned (crystallized) and operating expenses incurred for each month. Compensation costs also include stock option benefit costs that are higher in the Company than they were in SAM as the Company is a reporting issuer.

## *Trailer Fees*

Trailer fees have increased as AUM and Management Fees have grown. For the quarter ended June 30, 2008 trailer fees of \$7.9 million were 29.6% higher than in the second quarter in 2007. Trailer fees for the six months ended June 30, 2008 were \$15.1 million, an increase of \$3.7 million (32.5%) compared with the prior year. Trailer fees as a percentage of Management Fees for the quarter ended June 30, 2008 have decreased slightly as compared with the corresponding period in 2007 to 21.7% from just over 23%. This change is due to the same factors that account for the reduction in Management Fees as a percentage of AUM – the increased sales of classes of Funds that do not attract trailer fees and a proportionate increase in offshore Fund assets that also do not attract trailer fees.

## *General & Administration*

General and administration expenses increased by approximately \$1.8 million (170.3%) to \$2.8 million for the three month period to June 30, 2008 and by \$2.7 (116.6%) to \$5.1 million for the six months then ended as compared with the six month period in 2007. Higher occupancy costs (we leased additional office space in November, 2007), sales and marketing costs, legal and other professional fees and higher regulatory and licensing fees were the main contributors to the increase.

We intend to effect a restructuring of our subsidiaries in order to separate our operations into three business lines: portfolio management, broker-dealer activities and consulting services. This restructuring will provide us with the opportunity to separately brand and market the three areas of our operations. It is also anticipated to result in tax efficiencies for the Company. The intended restructuring is subject to obtaining all necessary regulatory approvals and will not be effected unless it is in the best interest of the Company to do so. We are working with our legal and tax advisors to develop and, if appropriate, implement the restructuring plan. This work has resulted in higher legal and other professional fees.

## *Charitable Donations*

In late 2007, the Board of Directors of SAM approved a charitable donations program. Under this program, the amount of charitable donations made each year is 1.0% of the previous year's net income, as may be adjusted from time to time based on profitability, cash flow and other similar measures. Since we have committed to this program, we have begun accruing monthly for such donations based on last year's pre-tax net income (before bonuses paid to certain employees based on their shareholdings). There was no corresponding accrual in 2007.

## *Amortization*

In 2007, SAM changed its policy for amortizing artwork since the artwork does not have a determinable useful life. No additional artwork amortization was recorded in 2007 and in January 2008, all previously accumulated amortization on artwork, totaling \$0.2 million was reversed. As a result, amortization expense for the second quarter and first six months of 2008 of \$0.2 million and \$0.1 million, respectively, is lower than the amortization of \$0.2 million and \$0.4 million in the corresponding periods in 2007.

## **EBITDA, Base EBITDA and Net Income**

For the quarter and six month period ended June 30, 2008, EBITDA was \$17.4 million and \$42.4 million, respectively. EBITDA was negative for the three months ended June 30, 2007 due to the dilution loss and investment losses discussed under "Revenue" above, and totaled to \$18.5 million for the six months ended June 30, 2007. EBITDA is reconciled to Net Income in the Summary Financial Information table contained elsewhere in this MD&A. Base EBITDA for the three months to June 30, 2008 was \$17.2 million as compared with \$12.5 million in the second quarter of 2007 and \$33.8 million for the first six months of 2008 as compared with \$22.9 million in the

# Management's Discussion & Analysis

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corresponding period in 2007, representing increases of 37.6% and 47.6%, respectively. In the first quarter of 2008, realized and unrealized gains on proprietary investments were \$8.2 million while in the second quarter we recorded realized and unrealized losses on our proprietary investments totaling to \$2.8 million. Thus, while net income, and hence earnings per share, were higher in the first quarter than in the second quarter, after adjusting for the impact of gains and losses on proprietary investments described above, and the impact of crystallized performance fees, base EBITDA was higher in the second quarter of 2008 than in the first quarter of the year.

Income before taxes was \$16.9 million for the quarter and \$41.9 million for the six months to June 30, 2008 compared with a pre-tax loss of \$10.4 million for the second quarter of 2007 and net income before taxes of \$17.3 million for the six months ended June 30, 2007.

Net income for the three and six month periods ended June 30, 2008 was \$11.4 million and \$28.1 million as compared to a loss of \$7.7 million and net income of \$11.1 million for the corresponding periods in 2007.

## Balance Sheet

Total assets at June 30, 2008 of \$96.6 million are \$184.3 million less than at December 31, 2007. As described in the Prospectus, in anticipation of the Offering, SAM paid dividends and other payments to SAM shareholders totaling approximately \$214 million. Those payments were funded by a reduction in cash and equivalents and through the sale of the majority of SAM's proprietary investments. The shareholder payments and other accrued bonuses at December 31, 2007 as well as the dividends referred to above, account for the significant reduction in liabilities and shareholders' equity between December 31, 2007 and June 30, 2008.

## DIVIDENDS

In July 2008, a dividend of \$0.025 was declared for the quarter ended June 30, 2008 despite the fact that the Company's acquisition of SAM only occurred on May 15, 2008. In addition, the Company expects that the Board of Directors will declare a special dividend on each of our common shares following receipt of Performance Fees, if any, for the year ending December 31, 2008. All dividends are subject to declaration by the Board of Directors who will consider, among other things, our financial position, regulatory and working capital requirements, profitability and cash flow.

## OUTSTANDING SHARE DATA

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

Earnings per share as at June 30, 2008 and June 30, 2007 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 Company issued on May 15, 2008 pursuant to the Offering.

2,550,000 stock options have been issued pursuant to our incentive stock option plan. None are currently exercisable.

## MANAGING RISK

### *Market Risk*

We attempt to 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. We approach investment risk management for our clients on two levels: on the asset allocation level and on the investment product level. At the asset allocation level, we focus on mitigating risk through the appropriate selection and weighting of portfolio models for each client to reflect their suitability and risk tolerance. At the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies.

# Management's Discussion & Analysis

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## *Internal Controls*

We have internal control policies related to our business conduct. They are intended to ensure conformity with the rules and regulations of the Investment Industry Regulatory Organization of Canada ("IIROC"). The policies focus on five areas: capital adequacy, insurance, segregation of clients' securities, safeguarding of securities and cash, and pricing of securities. Each policy has a defined control objective and applicable procedures to ensure adherence to sound business practices and high ethical standards.

## *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.

## *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.

## *Insurance*

We maintain appropriate insurance coverage for general business and liability risks. We review our insurance coverage on a periodic basis.

## *Fair Allocation*

We believe that our investors have the right to be assured that Fund 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, we will allocate investment opportunities with consideration of the suitability of such investments to each Fund's objective and strategy, portfolio composition, Fund restrictions and cash availability (even though the investment objectives and strategies are substantially the same for some of our Funds, cash flows of each of our Funds can be substantially different given daily/monthly subscriptions and redemptions). If an investment opportunity is suitable for more than one Fund, 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, restriction, portfolio composition and cash availability of each Fund.

## *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 and Sprott Molybdenum Participation Corporation. 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

# Management's Discussion & Analysis

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and provide reports to us and to the holders of interests in our public mutual Funds or Sprott Molybdenum Participation Corporation in respect of its functions.

## RISKS AND UNCERTAINTIES

There are certain risks inherent in the activities of the Company, 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 resiliency plans; entering new lines of business; fluctuations in Performance Fees; insufficient insurance coverage; possible volatility of the share price; and control by a principal shareholder.

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

Reference is made to the discussion of the above risks contained under "Risk Factors" in the Prospectus. There have been no substantive changes to any of the risks described in the Prospectus, so the entire section has not been repeated herein, but rather referenced to the Prospectus.

## 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 in the relevant Funds and collected monthly, which assists our ability to manage cash flow. We believe that Management Fees will continue to be sufficient to satisfy our ongoing operational needs, including expenditure on our corporate infrastructure, business development and information systems. The nature of our operations ensures that the largest outflows, such as trailer fees and monthly compensation, are correlated with cash inflows, in the form of Management Fees. Fixed costs, such as rent, base payroll and general and administrative expenses are managed to comprise a low percentage of monthly Management Fees.

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

As a member of IIROC and a registered investment dealer, we are required to maintain a minimum amount of risk-adjusted capital calculated in accordance with the rules of IIROC at all times. The amount of such capital required is prescribed by regulation. Our credit facility of \$35 million also provides a source of funding for short-term cash flow requirements. During the quarter and six months ended June 30, 2008, SAM was in compliance with the capital requirements of IIROC and in compliance with the covenants under the credit facility.

Our proprietary investments consist primarily of holdings in our Funds and Sprott Molybdenum Participation Corporation ("Sprott Moly"), which holdings may be redeemed either monthly or daily depending upon the Fund, or, in the case of Sprott Moly, sold in the public market. Redemptions are processed at the net asset value of the units held in a Fund as at the valuation date on which the redemption is processed. We will continue to seed our new Funds as appropriate. In the past our investments have included, and our future investments may include, without limitation, gold and silver bullion, which are readily marketable.

# Management's Discussion & Analysis

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## 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 some 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 6(b) to the Company's unaudited interim 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 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 recorded on the balance sheet at their fair values.

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

## RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2008, the following related party transactions occurred:

The artwork displayed in our office area is rented from Mr. Sprott, President and CEO of the Company as well as from Sprott Securities Ltd., a corporation wholly owned by Mr. Sprott. The rental rate is equal to 3% per annum of the original acquisition cost of such artwork.

Certain proprietary investments sold as part of the reorganization in anticipation of the Offering were sold by SAM to Mr. Sprott, at fair market value. The total value of proprietary investments sold to Mr. Sprott during the six months ended June 30, 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.

# Management's Discussion & Analysis

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## CHANGES IN ACCOUNTING POLICIES

The CICA issued three new accounting standards, Section 3862 “Financial Instruments – Disclosures”, Section 3863 “Financial Instruments – Presentation” and Section 1535 “Capital Disclosures”, which apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

### *Capital Disclosures*

Section 1535 “Capital Disclosures” requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital. This new standard became effective for us as of January 1, 2008 and was adopted by the Company at that time.

### *Financial Instruments*

Section 3862 “Financial Instruments – Disclosures” modifies the disclosure requirements for financial instruments that were included in Section 3861 “Financial Instruments – Disclosure and Presentation”. This new standard requires us to provide disclosures in our consolidated financial statements that enable users to evaluate the significance of financial instruments for our financial position and performance as well as the nature and extent of risks arising from financial instruments to which we are exposed during the period and at the balance sheet date and how we manage those risks.

Section 3863 “Financial Instruments – Presentation” carries forward unchanged the presentation requirements of the former Section 3861 “Financial Instruments – Disclosure and Presentation”.

We adopted these new standards effective January 1, 2008. The adoption of these standards is not expected to have any material effects on our results of operations, financial position or cash flows.

### *International Financial Reporting Standards*

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (“IFRS”). In May 2007, the CICA published an updated version of its “Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP”. This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS effective January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy, which must be addressed. We are currently assessing the future impact of these new standards on the Company’s consolidated financial statements.

## OUTLOOK

We are executing our growth strategies that we believe will allow us to successfully continue to grow our AUM and our business.

As a result of the positive performance among many of our Funds over the past quarter, and despite the current market volatility both in Canada and globally, we continue to receive interest in our products from current and prospective clients, both domestically and offshore. We believe that our continued focus on generating excellent investment performance for investors in our Funds and Managed Accounts will enable us to continue our current sales momentum and will lead to increased AUM.

While future results are difficult to predict, the size of the market for our services is large and growing and our current market share is relatively small. A modest increase in our market share would lead to a material increase in our AUM.

We believe that our brand name and Funds are still at the early stages of penetration within the Canadian and global asset management industries. Given the performance records and sales growth of our offshore Funds, we feel that we are well positioned to capitalize on growth opportunities in selected global markets.

We continue to actively recruit experienced wholesalers in selected Canadian markets to expand our marketing, distribution and service capabilities to retail financial advisers, registered dealers and financial planners across Canada.

# Management's Discussion & Analysis

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We plan to launch at least one new fund by the end of the year.

Recent additions to our investment team have significantly increased our “capacity”. They have given us the ability to manage substantial additional AUM without additional hires in the near term. However, we will continue to consider the opportunistic hiring of additional investment professionals.

Through Sprott Consulting L.P. (“SCLP”) we have introduced into our business operations the concept of providing management and administrative services to public companies. We believe that SCLP offers us opportunity to manage corporate assets on a permanent basis and to enter into the marketplace for private equity style investments as well as participate as a manager in corporate transactions. SCLP manages Sprott Resource Corp. (“SRC”), a publicly traded company listed on TSX. SAM is the sole limited partner in SCLP. SRC focuses on private equity investments in the natural resource sector as well as direct acquisitions of natural resource properties. Pursuant to a management services agreement between SCLP and SRC, SCLP is entitled to a management fee and an incentive fee for managing SRC. Growth in SRC’s net assets or the realization by SRC of pre-tax profits above the required hurdle will result in increased revenue for the Company.

As we continue to develop our business and to expand our portfolio of Funds, our infrastructure will necessarily grow. We anticipate that we will incur additional costs related to business development, in particular, increased resources devoted towards our sales efforts. As our business develops and as we continue to launch new Funds and other products, we will continue to upgrade our systems and increase the number of personnel in our back office in order to accommodate such growth. We will also have additional expenses related to being a public company including increased shareholder communication costs, costs associated with complying with continuous disclosure obligations, corporate governance costs, directors and officers’ insurance costs and an increase in legal and accounting costs. Nonetheless, we believe that we will continue to generate profitable operating margins.

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

# Sprott Inc.

## Unaudited Interim Consolidated Balance Sheets

	<i>As at June 30,</i> 2008	<i>As at December 31,</i> 2007
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	49,530,777	94,293,092
Proprietary investments, held for trading <i>(Notes 2 and 4)</i>	30,126,238	97,309,400
Proprietary investments, available for sale <i>(Notes 2 and 4)</i>	–	3,281,196
Proprietary investments, precious metal bullion <i>(Notes 2 and 4)</i>	–	16,792,121
Fees receivable	10,744,124	54,911,862
Other assets	1,343,293	338,259
<b>Total current assets</b>	<b>91,744,432</b>	<b>266,925,930</b>
Long-term investments <i>(Notes 2 and 5)</i>	–	9,997,801
Fixed assets, net <i>(Note 8)</i>	4,811,707	3,949,107
	4,811,707	13,946,908
<b>Total assets</b>	<b>96,556,139</b>	<b>280,872,838</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	5,716,722	7,370,721
Compensation and employee bonuses payable	8,776,974	124,075,500
Income taxes payable	18,279,340	9,118,948
<b>Total current liabilities</b>	<b>32,773,036</b>	<b>140,565,169</b>
Future income tax liability <i>(Note 11)</i>	1,953,000	2,220,000
<b>Total liabilities</b>	<b>34,726,036</b>	<b>142,785,169</b>
<b>Shareholders' equity</b>		
Capital stock <i>(Note 6a)</i>	40,104,811	14,801,842
Contributed surplus <i>(Note 6a)</i>	375,779	113,220
Retained earnings	21,349,513	123,172,607
<b>Total shareholders' equity</b>	<b>61,830,103</b>	<b>138,087,669</b>
<b>Total liabilities and shareholders' equity</b>	<b>96,556,139</b>	<b>280,872,838</b>

See accompanying notes

# Sprott Inc.

## Unaudited Interim Consolidated Statements of Net Income (Loss), Comprehensive Income (Loss) and Retained Earnings

	<i>For the three months ended</i> <b>June 30, 2008</b>	<i>For the three months ended</i> <b>June 30, 2007</b>	<i>For the six months ended</i> <b>June 30, 2008</b>	<i>For the six months ended</i> <b>June 30, 2007</b>
	\$	\$	\$	\$
<b>Revenue</b>				
Management fees	36,627,349	26,559,536	69,390,612	49,107,910
Crystallized performance fees	3,991,360	312,069	4,296,418	345,779
Unrealized and realized gain (loss) on proprietary investments	(2,753,506)	(10,619,620)	5,396,118	(6,564,541)
Dilution loss relating to Sprott Molybdenum Participation Corporation ( <i>Note 7</i> )	–	(11,808,172)	–	–
Impairment of long term assets ( <i>Note 5</i> )	–	(1,137,945)	–	(1,137,945)
Other income	1,440,947	373,177	3,060,621	562,045
Interest income	193,096	8,064	484,334	427,519
	<b>39,499,246</b>	<b>3,687,109</b>	<b>82,628,103</b>	<b>42,740,767</b>
<b>Expenses</b>				
Compensation and benefits	11,281,865	5,887,945	19,800,570	10,528,874
Trailer fees	7,947,954	6,131,877	15,055,607	11,360,795
General and administration	2,845,916	1,053,009	5,074,699	2,343,138
Donations	365,830	29,400	690,830	30,900
Amortization	172,100	219,846	113,301	388,165
Interest expense	–	728,656	–	739,899
<b>Total expenses</b>	<b>22,613,665</b>	<b>14,050,733</b>	<b>40,735,007</b>	<b>25,391,771</b>
Income (loss) before income taxes for the period	16,885,581	(10,363,624)	41,893,096	17,348,996
Provision for (recovery of) income taxes ( <i>Note 11</i> )	5,494,835	(2,687,360)	13,792,835	6,238,000
Net income (loss) and comprehensive income (loss) for the period	11,390,746	(7,676,264)	28,100,261	11,110,996
Retained earnings, beginning of the period	37,108,122	121,594,319	123,172,607	102,807,059
Dividends paid	(27,149,355)	(6,000,000)	(134,649,355)	(6,000,000)
Dividend tax refund	–	–	4,726,000	–
Premium paid on acquisition of common shares ( <i>Note 6a</i> )	–	(564,183)	–	(564,183)
<b>Retained earnings, end of the period</b>	<b>21,349,513</b>	<b>107,353,872</b>	<b>21,349,513</b>	<b>107,353,872</b>
Basic and diluted earnings per share	\$0.08	\$(0.06)	\$0.20	\$0.08

See accompanying notes

# Sprott Inc.

## Unaudited Interim Consolidated Statements of Cash Flows

	<i>For the three months ended</i> June 30, 2008	<i>For the three months ended</i> June 30, 2007	<i>For the six months ended</i> June 30, 2008	<i>For the six months ended</i> June 30, 2007
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	11,390,746	(7,676,264)	28,100,261	11,110,996
Add (deduct) non-cash items:				
Stock-based compensation	375,779	–	375,779	–
Amortization	172,100	219,846	113,301	388,165
Dilution loss relating to Sprott Molybdenum Participation Corporation ( <i>Note 7</i> )	–	11,808,172	–	–
Impairment of long-term investments	–	1,137,945	–	1,137,945
Future income taxes	(267,000)	–	(267,000)	–
	<b>11,671,625</b>	<b>5,489,699</b>	<b>28,322,341</b>	<b>12,637,106</b>
Other assets	(238,177)	249,225	(1,005,034)	(247,970)
Fees receivable	916,531	1,419,354	44,167,738	22,347,932
Income taxes payable	5,588,392	(2,687,360)	9,160,392	2,238,000
Accounts payable and accrued liabilities	947,307	(3,024,115)	(1,653,999)	(5,586,644)
Compensation and employee bonuses payable	3,725,609	2,810,833	(115,298,526)	(85,989,167)
Proprietary investments	9,401,365	(13,832,333)	87,256,479	(21,755,537)
<b>Cash provided by (used in) operating activities</b>	<b>32,012,652</b>	<b>(9,574,697)</b>	<b>50,949,391</b>	<b>(76,356,280)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of fixed assets	(342,406)	(100,657)	(975,901)	(194,042)
Long-term investments	(21,170)	9,946,866	(151,554)	3,258,437
<b>Cash provided by (used in) investing activities</b>	<b>(363,576)</b>	<b>9,846,209</b>	<b>(1,127,455)</b>	<b>3,064,395</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares	17,372,473	1,276,419	25,189,749	2,006,424
Dividend tax refund	–	–	4,726,000	–
Bank Indebtedness	–	6,900,000	–	6,900,000
Subordinated loan ( <i>Note 7</i> )	–	–	–	12,000,000
Repayment of subordinated loan ( <i>Note 7</i> )	–	–	–	(4,000,000)
Dividends paid	(17,000,000)	(6,000,000)	(124,500,000)	(6,000,000)
<b>Cash provided by (used in) financing activities</b>	<b>372,473</b>	<b>2,176,419</b>	<b>(94,584,251)</b>	<b>10,906,424</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>32,021,549</b>	<b>2,447,931</b>	<b>(44,762,315)</b>	<b>(62,385,461)</b>
Cash and cash equivalents, beginning of the period	17,509,228	3,773,169	94,293,092	68,606,561
<b>Cash and cash equivalents, end of period</b>	<b>49,530,777</b>	<b>6,221,100</b>	<b>49,530,777</b>	<b>6,221,100</b>
<b>Cash and cash equivalents:</b>				
Cash	4,444,534	189,159	4,444,534	189,159
Cash at carrying broker	1,680,698	6,031,941	1,680,698	6,031,941
Short-term deposits	43,405,545	–	43,405,545	–
	<b>49,530,777</b>	<b>6,221,100</b>	<b>49,530,777</b>	<b>6,221,100</b>
<i>See accompanying notes</i>				
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Interest paid	–	728,689	–	739,932

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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### 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. (“SAM”).

SAM was incorporated under the Ontario Business Corporations Act on August 31, 2000. SAM’s principal business is the investment management of public mutual funds, hedge funds and managed accounts. SAM is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”, formerly the Investment Dealers Association of Canada). SAM has entered into a Type II introducing broker agreement with Cormark Securities Inc. (“Cormark”). Under the terms of this agreement Cormark performs trading, clearing, segregation/safekeeping and recordkeeping services for SAM.

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 20,000,000 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 ticker SII.

### 2. Reorganization

In anticipation of, and prior to the completion of the Offering on May 15, 2008, SAM and its shareholders undertook certain corporate transactions. These transactions (referred to as the “Reorganization”) are described below:

#### (a) Sale of proprietary investments

During the six month period ended June 30, 2008, SAM redeemed or sold various proprietary investments comprising mutual funds, hedge funds, public equities, gold and silver certificates, gold and silver bullion and gold coins. See Note 4 for a detailed listing of proprietary investments.

Total proceeds from the sale of proprietary investments were approximately \$95 million.

#### (b) Divestiture of long-term investment

In April 2008, SAM distributed the long-term investment by way of a dividend-in-kind to shareholders of record as of January 30, 2008, with the amount of the dividend being equal to approximately \$10.1 million. Refer to Note 5 for further details.

#### (c) Payment of dividends

As a result of the Reorganization, SAM paid a total of \$134.6 million in dividends, of which \$124.5 million was paid in cash and \$10.1 million was paid as a dividend-in-kind (see Note 5).

#### (d) Option grants and exercise by optionholders

As a result of the Reorganization, certain amendments were made to the SAM stock option plan and new options were granted. Immediately prior to the completion of the Offering, optionholders exercised all of their stock options to acquire common shares of SAM. Refer to Note 6(b) for further details.

#### (e) Share exchange

Immediately prior to the completion of the Offering, the shareholders of SAM exchanged their common shares of SAM for common shares of the Company on a 1 for 27.5042984 basis, all in accordance with a share exchange agreement entered into prior to closing of the Offering by SAM, the Company and each of the shareholders of SAM.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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### 3. Significant Accounting Policies

#### Basis of presentation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The accompanying unaudited interim consolidated financial statements give effect to the acquisition of SAM by the Company.

For the purposes of the unaudited interim consolidated financial statements, the acquisition of SAM for the three and six month periods ended June 30, 2008 has been accounted for using the continuity of interest method. 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.

These consolidated financial statements have been prepared by management in accordance with GAAP and include the accounts of the Company and its wholly-owned subsidiaries: SAM, Sprott Genpar Ltd., SAMGENPAR Ltd. and Sprott Consulting L.P. All intercompany accounts are eliminated on consolidation.

#### Use of estimates

The preparation of the 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 period. 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 subsidiary SAM, receives management fees from the funds and managed accounts that it manages at annual rates ranging from 1.0% to 2.5% per annum of the respective net assets. The management fees accrue daily and are collected monthly.

SAM 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. With the exception of one fund and performance fees attributable to redeemed units (together termed as crystallized performance fees), performance fees are earned on the last day of the fiscal year.

#### 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 or adoption of this standard, even if that instrument would not otherwise satisfy the

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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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 classified as held for trading include precious metal certificates, mutual funds, hedge funds and publicly traded companies (a number of these investments were sold during the periods ended June 30, 2008, please refer to Notes 2 and 4 for further details) and are measured at fair value with changes in their fair value included in income in the period in which they arise.

The Company's equity instruments for which fair value cannot be reliably measured are designated as available for sale and recorded at cost. Equity instruments classified as available for sale include investments in private companies. These investments were also disposed of during the quarter (refer to Notes 2, 4 and 7 for further details).

Transaction costs related to financial assets, both held for trading and available for sale, are expensed as incurred.

Other financial assets and liabilities, consisting of fees receivable, accounts payable and accrued liabilities and compensation payable have been classified as loans and receivables or other financial liabilities and continue to be carried at amortized cost.

### Precious metal bullion

Precious metal bullion includes investments in gold bullion and coins and silver bullion. Investments in precious metal bullion are measured at fair market value determined by reference to published price quotations, with gains and losses recorded in income. These investments were disposed of during the three and six month periods ended June 30, 2008 (refer to Note 2 and 4 for further details).

### Long-term investments

Long-term investments consist of non-publicly traded oil and gas properties and are valued at cost less any impairment. These investments were disposed of during the quarter ended June 30, 2008 (refer to Note 5 for further details).

### Fixed assets

Fixed assets are recorded at cost and are amortized on a declining balance basis at rates ranging from 20% to 50% 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 is computed by dividing net income by the weighted-average number of common shares outstanding during the period.

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 period.

### Foreign currency translation

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 net income for the year.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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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 tax assets and liabilities are measured using 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 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 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 recorded with respect to the options and consideration paid by the optionee is credited to capital stock.

### Variable interest entities

Hedge funds set up as limited partnerships, public mutual funds and offshore funds managed by SAM 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 and of the offshore funds managed by it.

### Adoption of new accounting standards

On January 1, 2008, the Company adopted the following accounting standards:

#### Capital Disclosures

Section 1535, “Capital Disclosures”, requires disclosure of both qualitative and quantitative information that enables the users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital. This new standard became effective on January 1, 2008 and was adopted by the Company at that time. Refer to Note 6(c) for further details.

#### Financial Instruments

Section 3862, “Financial Instruments – Disclosures”, modifies the disclosure requirements for financial instruments that were included in Section 3861, “Financial Instruments – Disclosure and Presentation”. This new standard requires the Company to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments to the Company’s financial position and performance as well as the nature and extent of risks arising from financial instruments to which the Company was exposed during the period and at the balance sheet date and how the Company manages those risks. This new standard became effective on January 1, 2008 and was adopted by the Company at that time. Refer to Note 13 for further details.

Section 3863, “Financial Instruments – Presentation” carries forward unchanged the presentation requirements of the old Section 3861, “Financial Instruments – Disclosure and Presentation”. This new standard became effective on January 1, 2008 and was adopted by the Company at that time. Refer to Notes 4 and 13 for further details.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

### 4. Proprietary Investments

Proprietary investments consist of the following:

	<i>June 30,</i> <b>2008</b>	<i>December 31,</i> <b>2007</b>
	\$	\$
<b>PRECIOUS METAL BULLION</b>		
Gold coins and bullion	–	9,385,664
Silver bullion	–	7,406,457
	–	16,792,121
<b>SECURITIES DESIGNATED AS HELD FOR TRADING</b>		
Gold certificates	–	16,857,351
Silver certificates	–	14,584,784
Public equities	16,182,320	26,347,649
Sprott Opportunities Hedge Fund L.P.	–	1,560,600
Sprott Global Equity Fund	–	4,786,636
Sprott Energy Fund	–	270,254
Sprott Growth Fund	–	8,316,000
Sprott Gold and Precious Minerals Fund	–	6,092,530
Sprott Global Market Neutral Fund	4,368,103	–
Sprott Small Cap Equity Fund	–	3,428,775
Sprott All Cap Fund	150,000	–
Sprott Strategic Gold Fund LP	115,185	–
Sprott Capital LP	192,109	–
Sprott Opportunities Capital Fund LP	168,919	–
Sprott Strategic Offshore Gold Fund Ltd.	8,949,602	15,064,821
	<b>30,126,238</b>	<b>97,309,400</b>
<b>SECURITIES AVAILABLE FOR SALE</b>		
Private equities	–	3,281,196
<b>Total proprietary investments</b>	<b>30,126,238</b>	<b>117,382,717</b>

As at June 30, 2008, investments in public equities consist of an investment in Sprott Molybdenum Participation Corporation (“Sprott Moly”, formerly 2121196 Ontario Ltd.). For further information, refer to Note 7(a).

As at December 31, 2007, approximately \$18 million of investments in public equities was invested in Sprott Moly, with the remaining \$8.3 million invested in other publicly traded equities.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2008

### 5. Long-Term Investments

Long-term investments consisted of investments in oil and gas properties. These properties were held by 2121197 Ontario Ltd., a former wholly-owned subsidiary of SAM, and amounted to \$10.1 million. Investments in oil and gas properties are not publicly traded and were measured at cost less any impairment.

During fiscal 2007, an impairment charge of \$7,466,674 was recorded based on valuation comparisons to recent publicly disclosed arms length market transactions in similar oil and gas properties. Of the total loss, \$1,137,945 was recorded in the second quarter of 2007 and \$6,328,729 was recorded in the second half of 2007.

In April 2008, SAM distributed the long-term investment by way of a dividend-in-kind to shareholders of record as of January 30, 2008, with the amount of the dividend being equal to the carrying value thereof. As a result of the distribution, SAM's interest in 2121197 Ontario Ltd. ceased.

### 6. Shareholders' Equity

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

Due to the application of continuity of interest accounting, all SAM share transactions in the current and comparative reporting periods were converted using the IPO conversion factor of 27.5042984 Company shares for each SAM share (see Note 2(e)).

Capital stock consists of the following:

	Number of shares (pre-IPO conversion factor)	Number of shares (post-IPO conversion factor)	Stated Value \$
AUTHORIZED			
Unlimited common shares, without par value			
ISSUED			
Balance, December 31, 2006	4,787,881	131,687,307	12,049,679
Issuance of common shares on exercise of stock options (note 6(b))	92,276	2,537,987	2,829,348
Repurchase and cancellation of common shares from departing employees	(27,681)	(761,346)	(77,185)
Balance, December 31, 2007	4,852,476	133,463,948	14,801,842
Issuance of common shares on exercise of stock options	601,217	16,536,052	25,302,969
Balance, June 30, 2008	5,453,693	150,000,000	40,104,811

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

Contributed surplus consists of the following:

	Stated value
	\$
Balance, December 31, 2006	149,291
Grant of 50,000 SAM stock options	141,525
Exercise of 92,276 SAM stock options	(177,596)
Balance, December 31, 2007	113,220
Exercise of 601,217 SAM options	(113,220)
Grant of 2,550,000 Sprott Inc. options	375,779
Balance, June 30, 2008	375,779

During 2007, SAM repurchased 27,681 (761,346 using the IPO conversion factor) common shares for total proceeds of \$690,998. The excess of the proceeds over the average stated capital in the amount of \$613,813 has been charged to retained earnings in 2007, of which \$564,183 was recorded as at June 30, 2007 (as 25,552 of the 27,681 shares were repurchased and cancelled as at June 30, 2007).

During the six month period ended June 30, 2008, a total of 601,217 SAM options were exercised for proceeds of \$25,189,749; as a result of the exercise, \$113,220 previously recorded in contributed surplus was credited to share capital. Of the 601,217 SAM options, 151,620 were exercised in the first quarter of 2008 and 449,597 were exercised in the second quarter of 2008.

### (b) Stock option plan

Pursuant to the Reorganization (see Note 2), in February 2008, the SAM stock option plan was amended to increase the maximum number of options by 150,000 to 1,400,000 options. On March 17, 2008, 109,128 SAM options were granted, with an exercise price of \$81.39, vesting in equal portions over three years with a fair value of nil.

The exercise price of SAM stock options was based on the net book value of SAM. As a result of substantial dividends and other payments to SAM shareholders, the net book value of SAM was significantly reduced. As a result, by resolution of the board of directors of SAM in April 2008, exercise prices were amended as follows: (i) from \$48.3715 to \$17.41 for 185,953 options granted in January 2006; (ii) from \$76.9335 to \$45.98 for 120,550 options granted in August 2007; (iii) from \$78.30 to \$47.34 for 33,966 options granted in November 2007, and (iv) from \$81.39 to \$64.00 for 109,128 options granted in March 2008. The revaluation of stock options did not result in an increase in their fair value.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

The summary of SAM options granted and exercised is as follows:

	Number of SAM options (pre-IPO conversion factor)	Number of SAM options (post-IPO conversion factor)
SAM options outstanding, December 31, 2006	368,968	10,148,207
Granted	253,870	6,982,516
Exercised	(92,276)	(2,537,987)
Cancelled	(38,473)	(1,058,173)
SAM options outstanding, December 31, 2007	492,089	13,534,563
Granted	109,128	3,001,489
Exercised	(601,217)	(16,536,052)
SAM options outstanding, June 30, 2008	–	–

Immediately prior to the completion of the Offering, optionholders exercised all of their stock options to acquire common shares of SAM. Also, immediately prior to the completion of the Offering, shareholders of SAM transferred their shares to the Company in exchange for an aggregate of 150,000,000 common shares of the Company.

Immediately prior to the completion of the Offering, the SAM stock option plan was terminated.

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 ten years from the date of grant.

In the second quarter of 2008, the board of directors of the Company granted a total of 2,550,000 options to its directors and certain key employees. On May 6, 2008, 2,450,000 options were granted, with 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 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%–3.27%, an expected life of five years, weighted average expected volatility of 28% and an expected dividend yield of 1%. During the period ended June 30, 2008, the Company recorded a compensation expense of \$375,779, with a corresponding increase to contributed surplus.

### (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 share capital, contributed surplus and retained earnings. The Company’s wholly-owned subsidiary, SAM, is a registrant of IIROC and is therefore required to maintain a minimum regulatory capital. To ensure

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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compliance, the Company monitors SAM's regulatory capital on a daily basis. SAM also has a credit facility from a major Canadian bank. One of the covenants related to this facility requires SAM to maintain minimum tangible net worth of \$40 million (see Note 9b).

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 in light of changes in business specifics as well as overall economic conditions. In anticipation of the proposed Offering (see Note 2 for further details), the Company determined that it has accumulated shareholders' equity in excess of expected ongoing requirements, and through a Reorganization (described in greater detail in Note 2), reduced its shareholders' equity to approximately \$50 million immediately before the completion of the Offering.

### 7. Related Party Transactions

#### (a) Sprott Molybdenum Participation Corporation ("Sprott Moly")

During the 2007 fiscal year, one of SAM's subsidiaries, Sprott Moly, underwent an initial public offering in April 2007 and ceased to be a subsidiary of SAM. As at March 31, 2007, Sprott Moly was a wholly-owned subsidiary of SAM and held investments in publicly traded equities of companies that explore for, mine and/or process molybdenum ("Molybdenum Equities"). As at March 31, 2007, Molybdenum Equities generated unrealized gains of approximately \$11.8 million. Since the entire amount of the gain was passed on to new shareholders of Sprott Moly upon the completion of its initial public offering, an offsetting dilution loss of the same amount, recorded in April of 2007, eliminated all gains on Molybdenum Equities.

As at June 30, 2008, the Company owns approximately 9.85% of Sprott Moly (see Note 4), which is also managed by SAM.

#### (b) Artwork rental

The Company rents artwork from Mr. Sprott, CEO and President, as well as from Sprott Securities Ltd., a corporation wholly-owned by Mr. Sprott. The rental rate is equal to 3% per annum of the amount paid to acquire the artwork displayed in the office area of the Company. As at June 30, 2008, \$342,000 was accrued to be paid to Mr. Sprott and Sprott Securities Ltd. for the six month period ended June 30, 2008.

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

Certain proprietary investments sold as part of the Reorganization (see Note 2(a)) were sold by SAM to Mr. Sprott, at fair market value. The total value of proprietary investments sold to Mr. Sprott during the six months ended June 30, 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) Subordinated loan

During the first quarter of 2007, Mr. Sprott provided a subordinated loan to SAM in the amount of \$12 million. The additional loan brought the total balance of subordinated loans provided by Mr. Sprott to \$46 million; of the \$46 million, approximately \$25 million was repaid during the first quarter of 2007, of which approximately \$21 million was repaid with precious metal bullion and the remainder repaid in cash. The subordinated loan was paid out in full in the fourth quarter of 2007.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

### 8. Fixed Assets

Fixed assets consist of the following:

	<i>As at June 30, 2008</i>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Artwork	1,530,251	–	1,530,251
Furniture and equipment	1,416,988	609,146	807,842
Computer hardware and software	794,376	579,825	214,551
Leasehold improvements	2,860,828	601,765	2,259,063
	6,602,443	1,790,736	4,811,707

	<i>As at December 31, 2007</i>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Artwork	1,453,432	199,809	1,253,623
Furniture and equipment	1,242,909	532,991	709,918
Computer equipment	686,293	529,006	157,287
Leasehold improvements	2,243,909	415,630	1,828,279
	5,626,543	1,677,436	3,949,107

### 9. Lease Commitments and Other Obligations

#### (a) Lease commitments

Future minimum annual rental payments under a non-cancellable lease for office premises, including operating costs, are as follows:

	\$
2008	754,000
2009	1,508,000
2010	1,508,000
2011	1,508,000
2012	1,508,000
2013	1,508,000

#### (b) Credit facility

SAM has a credit facility provided by a major Canadian bank for a maximum of \$35,000,000. SAM may obtain credit under the Credit Facility by way of bankers' acceptances and prime rate loans. The credit facility has the following covenants:

- (i) Assets under management must be greater than or equal to \$3 billion;

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## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

- (ii) Total debt taken under the Credit Facility divided by EBITDA of SAM, as defined in the Credit Facility agreement, has to be less than or equal to 1.25; and
- (iii) Minimum Tangible Net Worth of SAM, as defined in the agreement, must be greater than \$40 million.

As at June 30, 2008, there were no funds drawn from the credit facility.

### 10. Earnings per Share

For the three and six months ended June 30, 2008, basic and diluted earnings per common share is \$0.08 and \$0.20 respectively. For the three and six months ended June 30, 2007, basic and diluted earnings per common share is (\$0.06) and \$0.08, respectively.

### 11. Income Taxes

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

	<i>Three months ended June 30,</i> <b>2008</b>	<i>Six months ended June 30,</i> <b>2008</b>
	\$	\$
Income taxes at statutory tax rate (33.5%)	5,656,670	14,034,187
Increase (decrease) in income taxes resulting from:		
Rate differences and other	(161,835)	(241,352)
<b>Income tax provision as reported, effective tax rate of 32.5% and 32.9%, respectively)</b>	<b>5,494,835</b>	<b>13,792,835</b>
	<i>Three months ended June 30,</i> <b>2008</b>	<i>Six months ended June 30,</i> <b>2008</b>
	\$	\$
Income taxes at statutory tax rate (36.12%)	(3,743,341)	6,266,457
Increase (decrease) in income taxes resulting from:		
Tax rate differential in subsidiary	1,110,582	–
Rate differences and other	(54,601)	(28,457)
<b>Income tax provision as reported, effective tax rate of 25.9% and 35.9%)</b>	<b>(2,687,360)</b>	<b>6,238,000</b>

Future income tax liability relates to a future tax expense incurred in fiscal 2007 as a result of unrealized capital gains earned by one of the wholly owned subsidiaries of the Company.

### 12. 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 lack the characteristics of a controlling financial interest. The Company has a direct investment in several

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2008*

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such offshore funds, and in several such public mutual funds, which are listed in Note 4. 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 variable 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.

### 13. Risk Management Activities

Financial instruments present a number of specific risks to companies in the financial services industry. These risks are 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, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. As financial instruments are recognized at fair value or net recoverable amount, these changes affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Company manages market risk by closely monitoring its proprietary investments.

##### *Price risk*

For a listing of the Company's investments, refer to Note 4. As at June 30, 2008, investments in funds and managed accounts managed by SAM, amounted to \$30.1 million or 31.2% of total assets.

If the market values of proprietary investments increased by 5%, with all other variables held constant and net of tax, this would have increased net income by approximately \$1 million; conversely, if the value of proprietary investments 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. Assets under management refers to the total assets of our funds and managed accounts less total liabilities, on which management fees or 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 with maturities of less than 3 months issued by the Government of Canada.

##### *Foreign exchange risk*

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 June 30, 2008, approximately \$9.4 million or 9.8% of total assets was invested in proprietary investments priced in U.S. dollars ("USD"). Furthermore, a total of \$0.5 million of cash, \$4.1 million of accounts receivable and \$0.3 million of other assets were denominated in USD. As at June 30, 2008, had the exchange rate between the US dollar and the CAD dollar increased or decreased by 5%, with all other variables held constant and net of tax, the increase or decrease, respectively, in net income would amount to approximately \$0.5 million.

# Sprott Inc.

## Notes to the Unaudited Interim Consolidated Financial Statements For the three and six months ended June 30, 2008

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### (b) Credit Risk

The Company incurs credit risk when entering into, settling and financing various proprietary transactions.

Credit risk arises from the potential that counterparties fail to satisfy their obligations. The Company's exposure to credit risk is minimal. Credit risk is managed by dealing with counterparties 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 managed by the Company.

### (c) Liquidity risk

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. The majority of investments held by the Company are either investments in funds or public equities and can therefore be readily liquidated if cash flow needs arise. Financial liabilities of the Company, including accounts payable, accrued liabilities and compensation payable, are short term in nature and are generally due within several months. The Company manages liquidity risk by monitoring cash balances on a daily basis and maintaining a credit facility (see Note 9).

## 14. 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.

## 15. Comparative Consolidated Financial Statements

The comparative unaudited interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2008 unaudited interim consolidated financial statements.

## 16. Subsequent Event

On July 29, 2008, the board of directors of the Company declared an eligible dividend of \$0.025 per share for the quarter ended June 30, 2008, payable on August 29, 2008 to the shareholders on record as at August 11, 2008.

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## Corporate Information

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