Sprott Inc.

Report to Shareholders

September 30

2008

Sprott INC.

October 30, 2008

Dear Shareholders,

The financial markets have suffered unprecedented declines since the beginning of July, 2008. The TSX Composite Total Return Index, the S&P 500 Index and the MSCI World Index have fallen 37%, 25% and 30%, respectively*. At Sprott Asset Management (SAM), we had been anticipating a systemic meltdown, which we outlined in commentaries from January 2008 ("Welcome to the 2008 Meltdown") and October 2007 ("The Financial System is a Farce"). What we did not expect was being punished for seeking shelter in real, hard assets like gold and silver. The market downturn has been global and has impacted all sectors, even those that have historically fared well during bear markets.

Like most asset managers, we were not immune from this widespread sell-off. Our funds suffered negative returns in the third quarter of 2008, particularly our "long only" funds. This has led to a considerable decline in assets under management (AUM), which totaled $5.6 billion at the end of September, compared to $7.7 billion at the end of June 2008. Despite the market turmoil and an industry-wide decline in fund sales, our net sales were positive during the third quarter, which we believe is a true testament to our performance history.

While assets declined during the quarter, we saw year-over-year growth in key financial measures. Average AUM increased by 25% to $6.7 billion from $5.3 billion in the prior year period. This led to a 19% rise in management fees and an 18% increase in total revenue. Net income was $3.7 million, or $0.02 per share, and contributed to positive net cash flow for the quarter. The Board of Directors declared a quarterly dividend of $0.025 which will be paid out on November 28, 2008.

The pressure on stock prices from negative market sentiment has been exacerbated by investment funds, primarily hedge funds, being forced to liquidate positions to meet redemptions or as part of a de-leveraging or risk reduction process. Our Funds have generally not been subject to any significant redemptions through the first three quarters of 2008. However, we have positioned our portfolios to deal with situations as they develop, including possible redemptions.

Throughout our investment careers, we have witnessed a number of significant performance dips due to adverse market events. What is important to remember is that most of these downturns have been followed by considerable recoveries in our funds. Below is a table that outlines the declines and recoveries the Sprott Canadian Equity Fund has experienced over the past 10 years. The average peak to trough return was −25% and the average recovery one year after reaching the trough was +54%.

Event	Peak	Trough	Return	Return one year later
Asia/LTCM crisis	Oct-97	Oct-98	−52.2%	68.2%
1999-2000 rate rises	Apr-99	Aug-99	−17.1%	98.9%
Technology bust, 9/11 tragedy	Nov-00	Jan-01	−23.1%	54.6%
Accounting scandals	Jun-02	Jul-02	−22.4%	53.5%
U.S. slowdown	Dec-04	May-05	−15.6%	58.8%
U.S. housing market slowdown	May-06	Jun-06	−24.4%	46.0%
U.S. subprime crisis	Jul-07	Aug-07	−23.0%	0.7%
Average			**−25.4%**	**54.4%**

We continue to pursue our multi-pronged growth strategy aimed at growing our market share of the Canadian and global asset management industries. We have significant capacity to add new funds and grow AUM due to additions to our investment team. For example, we launched the Sprott All Cap Fund on September 18, 2008, and are one of three managers on the new Star Hedge Managers Corp. Through the hiring of experienced wholesalers in selected Canadian markets, we have increased our sales and marketing efforts. We also continue to gain recognition from investment awards, which creates brand awareness. Two of our hedge funds – the Sprott Offshore Fund Ltd and the Sprott Opportunities Hedge Fund L.P. – were recently included among seven finalists worldwide by HFM Week as the 2008 Best Long/Short Hedge Fund.

Through Sprott Consulting L.P. (SCLP), we have introduced the concept of providing management and administrative services to public companies. We believe that SCLP offers us the opportunity to manage corporate assets on a permanent basis, and to enter into private equity style investments and participate as a manger in corporate transactions. Currently, SCLP manages Sprott Resource Corp. (TSX:SRC) which holds a significant stake in PBS Coals. Assuming SRC sells its stake in PBS Coals based on the terms of the arrangement announced on October 25, 2008, SCLP stands to gain a substantial incentive fee.

Lastly, we remain focused on achieving superior investment performance over the long term, which has been the key to our growth and success over the past 27 years. Despite the distressed markets, our portfolio managers continue to adhere to their investment strategies. Being survivalists and investment opportunists has served us well in the past and over time has resulted in superior returns. As major shareholders and unit holders, we continue to be highly motivated to achieve outstanding performance for our clients and shareholders.

Yours sincerely,

Eric Sprott
President and Chief Executive Officer
Sprott Inc.

* priced as at the close of October 27, 2008

Contents

Management's Discussion & Analysis

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 September 30, 2008 compared with December 31, 2007, and the results of operations for the three month and nine month periods ended September 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 nine months ended September 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.

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 nine month periods ended September 30, 2007, 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.

FORWARD LOOKING STATEMENTS

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

NON-GAAP FINANCIAL MEASURES

We measure the success of our business using a number of key performance indicators that are not measurements in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

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.

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 investment performance and our AUM.

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

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

Net Sales

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

EBITDA

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

Base EBITDA

"Base EBITDA" refers to EBITDA after adjusting for: (i) the 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 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; (iii) the bonus compensation arrangements that became effective upon completion of the Offering as if they had been in place in prior periods; and (iv) 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) 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

HIGHLIGHTS

As at September 30, 2008, the Company, through its wholly owned subsidiaries SAM and Sprott Consulting LP, had approximately $5.6 billion of Assets Under Management in our various investment funds (the "Funds") and discretionary managed accounts and management of certain public companies (collectively, the "Managed Accounts"). The decrease in our AUM from the previous quarter is reflective of current global financial conditions.

In anticipation of a systemic financial meltdown, our Portfolio Managers had endeavored to position their managed portfolios to weather the crisis by holding high levels of cash and cash equivalents and by holding precious metals bullion and/or precious metals stocks which were expected to retain their values or increase in value during times of financial turmoil. Our Funds were also invested in energy-related stocks that we expected to show strength due to ongoing global supply concerns. However, no sectors were spared the financial market declines and all of our Funds experienced negative returns for the quarter. Despite the distressing state of the markets, our net sales were positive for the quarter and year to date, a testament to our strong investment track record and a diversified client base of loyal and sophisticated clients.

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

- Assets Under Management decreased by $2.1 billion to $5.6 billion at September 30, 2008 or 27.4% from June 30, 2008 and increased by $69 million from September 30, 2007. Average assets under management during the third quarter of 2008 were approximately $6.7 billion as compared to approximately $5.3 billion in the third quarter of 2007. Net sales in the quarter were $122 million but investment performance resulted in AUM decreasing by over $2.2 billion.
- Management Fees for the quarter and nine month period ended September 30, 2008 were $32.9 million and $102.3 million, respectively, representing an increase of $5.2 million (18.8%) and $25.5 million (33.2%) over the corresponding periods in 2007.
- Base EBITDA for the quarter and nine months to September 30, 2008 was $15.2 million and $49.0 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 $13.9 million and $36.8 million, respectively, for the quarter and nine months ended September 30, 2007.
- Net income for the three months and nine months ended September 30, 2008 is $3.7 million and $31.8 million, respectively and represents earnings per share (basic and diluted) of $0.02 and $0.22. Had the 150 million issued and outstanding shares been outstanding for the full nine month period ended September 30, 2008, earnings per share for the quarter and nine months then ended would have been $0.02 and $0.21, respectively.
- On September 18, 2008 we launched the Sprott All Cap Fund, an RRSP eligible mutual fund designed to capitalize on growth oriented opportunities in any sector or industry unhindered by market capitalization constraints. The objective of the Sprott All Cap Fund is to achieve long-term capital growth by investing primarily in equity and equity related securities of small, medium and large capitalized companies that have the potential to produce above average growth.
- On September 29, 2008 Star Hedge Managers Corp. closed its initial public offering for gross proceeds of $75 million. Star Hedge Managers Corp. was created to provide long-term capital growth by investing in a portfolio consisting of private investment funds or managed portfolios by three of Canada's leading portfolio managers including Eric Sprott. Star Hedge Managers Corp. invested one-third of the net proceeds raised from its offering in Class I units of Sprott Hedge Fund LP II.

OVERVIEW

The Company, through its wholly-owned subsidiaries, SAM and Sprott Consulting LP, 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 September 30, 2008, we had over 94,000 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 September 30, 2008, we managed approximately $5.6 billion in assets among our various Funds and Managed Accounts.

Management's Discussion & Analysis

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 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 up to 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 such bonuses being tied directly to 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, artwork rental, regulatory and professional fees as well as charitable donations and amortization.

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% per annum 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. 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, as we do not pay trailer fees on our offshore Funds. As at the end of September 2008, our offshore Funds accounted for over 18% of AUM as compared with 14% at September 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 up to 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; nor is there a trailer fee associated with fees earned on our Managed Accounts. 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.

Management's Discussion & Analysis

General and administration expenses have also increased over time as a result of the addition of employees, office space, rental of artwork, 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 21% 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 in 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 undertaken in connection with the Offering.

SELECTED ANNUAL FINANCIAL INFORMATION

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

SUMMARY FINANCIAL INFORMATION

Balance Sheet Information	As at September 30, 2008	As at December 31, 2007
Total Assets	**$83,302,860**	$280,872,838
Total Liabilities	**20,980,273**	142,785,169
Shareholders' Equity	**62,322,587**	138,087,669

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
	Assets Under Management (at period end)			
Assets Under Management	**$5,606,001,789**	$5,536,723,922	**$5,606,001,789**	$5,536,723,922
	Income Statement Information			
Revenue				
Management fees	**32,860,329**	27,663,787	**102,250,941**	76,771,697
Crystallized Performance Fees	**1,257,621**	1,116,281	**5,554,039**	1,462,060
Unrealized and realized losses on proprietary investments	**(9,706,266)**	(887,565)	**(4,310,148)**	(7,452,106)
Impairment of long-term investments	**–**	(6,400,000)	**–**	(7,537,945)
Other income	**720,752**	32,013	**3,781,373**	594,058
Interest income	**293,753**	72,863	**778,087**	500,382
Total revenue	**25,426,189**	21,597,379	**108,054,292**	64,338,146
Expenses				
Compensation and benefits	**9,512,719**	3,992,356	**29,313,289**	14,521,230
Trailer fees	**7,022,042**	6,142,583	**22,077,649**	17,503,378
General and administration	**2,721,014**	1,471,536	**7,795,713**	3,814,674
Donations	**305,778**	11,528	**996,608**	42,428
Amortization	**269,031**	182,088	**382,332**	570,253
Interest expense	**–**	284,465	**–**	1,024,364
Total expenses	**19,830,584**	12,084,556	**60,565,591**	37,476,327
Income before income taxes	**5,595,605**	9,512,823	**47,488,701**	26,861,819
Provision for income taxes	**1,927,165**	5,989,252	**15,720,000**	12,227,252
Net income and comprehensive income for the period	**3,668,440**	3,523,571	**31,768,701**	14,634,567

SELECTED ADJUSTED FINANCIAL INFORMATION

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Net income	**$3,668,440**	$3,523,571	**$31,768,701**	$14,634,567
Other expenses[1]	**843,075**	466,553	**1,332,155**	1,594,617
Provision for income taxes	**1,927,165**	5,989,252	**15,720,000**	12,227,252
EBITDA	**6,438,680**	9,979,376	**48,820,856**	28,456,436
Unrealized and realized (gain) loss on proprietary investments	**9,706,266**	887,565	**4,310,148**	7,452,106
Impairment of long-term investments	**–**	6,400,000	**–**	7,537,945
Discretionary bonus adjustment[2]	**–**	(2,488,215)	**–**	(5,534,391)
Crystallized performance fees net of performance fee related bonus pool[3]	**(943,216)**	(837,211)	**(4,165,529)**	(1,096,545)
Base EBITDA	**15,201,730**	13,941,516	**48,965,475**	36,815,551

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

[2] Adjustment required to bonus compensation arrangement assuming that arrangement had been in place in prior periods (2007)

[3] 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 nine months ended September 30, 2008 compared to three and nine months ended September 30, 2007

Overall Performance

AUM fell to $5.6 billion at September 30, 2008 compared with $7.7 billion at June 30, 2008. While net sales for the quarter ended September 30, 2008 were positive at $122 million, market values declined by over $2.2 billion resulting in the net $2.1 billion decrease in AUM for the quarter. Average AUM for the three months to September 30, 2008 was $6.7 billion compared with $5.3 billion in the comparable period in 2007.

Revenues for the third quarter of 2008 totaled to $ 25.4 million, an increase of $3.8 million (17.7%) over the same period in the prior year. Management Fees increased by $5.2 million (18.8%), while average AUM increased by 24.7% compared with the third quarter of 2007. In the third quarter of 2007 we recorded realized and unrealized losses of $0.9 million on proprietary investments and recorded a $6.4 million impairment of long-term investments, while in the third quarter of 2008 unrealized losses on proprietary investments totaled to $9.7 million. Crystallized Performance Fees for the three and nine month periods ended September 30, 2008 were $1.3 million and $5.6 million, respectively, as compared to $1.1 million and $1.5 million, respectively, for the three and nine month periods ended September 30, 2007. The largest contributors to the Crystallized Performance Fees in 2008 were the Sprott Offshore Funds.

Expenses amounted to $19.8 million in the three month period ended September 30, 2008, which is an increase of $7.7 million or 64.1% as compared with the same three month period in 2007. Of the total increase of $7.7 million, $5.5 million was attributed to an increase in compensation and benefits (see page 11), $0.9 million to an increase in trailer fees and $1.3 million to an increase in general and administrative expenses.

Similarly, for the nine month period ended September 30, 2008, expenses totaling $60.6 million were $23.1 million (61.6%) higher than for the first nine months of 2007. Of the total increase of $23.1 million, $14.8 million was attributed to an increase in compensation and benefits, $4.6 million to an increase in trailer fees, $4.0 million to an increase in general and administrative expenses and $1.0 million to an increase in donations. The explanations for the increases are discussed under the relevant sections below.

Net income of $3.7 million for the three months ended September 30, 2008 compares with net income of $3.5 million in the corresponding period in 2007 as higher management fees were largely offset by significantly higher investment losses as discussed above. For the nine months ended September 30, 2008 net income of $31.8 million is 117.1% higher than the net income of $14.6 million for the nine months ended September 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 periods.

$ millions	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007	12 months ended December 31, 2007
AUM, beginning of period	7,726	5,151	6,215	4,239	4,239
Net sales	122	255	680	876*	1,350
Market value appreciation (depreciation) of portfolios	(2,242)	131	(1,289)	422	626
AUM, end of period	5,606	5,537	5,606	5,537	6,215

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

Management's Discussion & Analysis

Revenue

Total revenues increased from $21.6 to $25.4 million, or by $3.8 million (17.7%) for the quarter ended September 30, 2008 as compared with the quarter ended September 30, 2007. For the nine months ended September 30, 2008, total revenues were $108.1 million or $43.7 million (67.95%) higher than in the corresponding period in 2007.

Management fees increased from $27.7 to $32.9 million or by 18.8% in the third quarter of 2008 as compared to the third quarter of 2007, as average AUM increased by 24.7% over the same period. Similarly, for the nine months to September 30, 2008, Management Fees of $102.3 million were $25.5 (33.2%) more than Management Fees in the first nine months of 2007, as average AUM rose by 20.9%. Management fee margins remained fairly constant at 2% and 2.3% for the three months and nine months ended September 30, 2008, compared to the corresponding periods in 2007 at 2.1% and 2.1%, respectively.

Crystallized Performance Fees for the three and nine month periods ended September 30, 2008 were $1.3 million and $5.6 million, respectively, as compared to $1.1 million and $1.5 million, respectively, for the three and nine month periods ended September 30, 2007. The largest contributors to the Crystallized Performance Fees in 2008 were the Sprott Offshore Funds.

Unrealized losses from investments totaled to a loss of $9.7 million, for the quarter ended September 30, 2008 and a net loss of $4.3 million, for the year-to-date. 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 and Sprott Molybdenum Participation Corporation that, on a mark-to-market basis, resulted in a loss from investments for the quarter. In the three and nine month periods ended September 30, 2007, realized and unrealized losses totaled to $0.9 million and $7.5 million, respectively.

An impairment charge on long-term investments was incurred in 2007. 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 had a carrying value of approximately $10 million as September 30, 2007. Investments in oil and gas properties were not publicly traded and were measured at cost less any impairment.

An impairment charge amounted to $7.5 million and was recorded in 2007 based on valuation comparisons to recent publicly disclosed arms length market transactions in similar oil and gas properties. Of the total loss, $6.4 million was written down in the third quarter 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.

Other income increased by 2,151.4% to $0.7 million and by 536.5% to $3.8 million for the three and nine month periods ended September 30, 2008 compared with the corresponding periods in 2007. The increase is mainly due to early redemption fees and foreign exchange gains on fees receivable from offshore funds.

Expenses

Total expenses for the three month and nine month period ended September 30, 2008 were $19.8 million and $60.6 million compared with $12.1 million and $37.5 million for the corresponding periods in 2007. Changes in specific categories are described in the following discussion:

Compensation & Benefits

In 2007, 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 is 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.

Compensation and benefits expense for the three and nine months ended September 30, 2008 amounted to $9.5 million and $29.3 million, respectively, including contributions to the discretionary employee bonus pool of $4.9 and $15.9 million, respectively. The same expense category for the three and nine months ended September 30, 2007 was $4.0 million and $14.5 million, respectively. The increase in compensation and benefits of $5.5 million (138.3%) and $14.8 million (101.9%) for the three and nine months ended September 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 are also correlated with AUM and Management Fees. For the quarter ended September 30, 2008 trailer fees of $7.0 million were 14.3% higher than in the third quarter in 2007. Trailer fees for the nine months ended September 30, 2008 were $22.1 million, an increase of $4.6 million (26.1%) compared with the prior year. Trailer fees as a percentage of Management Fees for the quarter ended September 30, 2008 have decreased slightly as compared with the corresponding period in 2007 to 21.4% from 22.2%. 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 have a lower management fee and a proportionate increase in offshore Fund and Managed Account assets that also do not attract trailer fees.

General & Administration

General and administration expenses increased by approximately $1.2 million (84.9%) to $2.7 million for the three month period to September 30, 2008 and by $4.0 million (104.4%) to $7.8 million for the nine months then ended as compared with the nine month period in 2007. Higher occupancy costs (we leased additional office space in November, 2007), artwork rental fees, 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 third quarter and first nine months of 2008 of $0.3 million and $0.4 million, respectively, is higher for the quarter but lower for the first nine months of 2008 as compared with $0.2 million and $0.6 million in the corresponding periods in 2007.

EBITDA, Base EBITDA and Net Income

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

Management's Discussion & Analysis

EBITDA allows us to assess our ongoing business without the impact of interest expense, income taxes and certain non-cash expenses, such as amortization and stock based compensation. EBITDA is an indicator of our ability to pay dividends, invest in our business and continue operations. For the quarter and nine month period ended September 30, 2008, EBITDA was $6.4 million and $48.8 million, respectively. For the three and nine month periods ended September 30, 2007, EBITDA was $10.0 million and $28.5 million, respectively. While net income for three month ended September 30, 2008 and 2007 is comparable, EBITDA for the three months ended September 30, 2007 was higher than for the three months ended September 30, 2008, primarily due to a significantly higher income tax expense in the third quarter of 2007 as compared to the third quarter of 2008. The impairment of long-term investments recorded in the third quarter of 2007 was not deductible for income tax purposes and as a result, income tax as a percentage of pre-tax income is significantly higher in the third quarter of 2007 as compared to the third quarter of 2008 (63.0% versus 34.4%). For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table contained elsewhere in this MD&A. EBITDA for the nine months ended September 30, 2008 is 71.6% higher than its 2007 equivalent, highlighting growth in average AUM year over year, which translated to higher management fees and net income.

Base EBITDA, as defined elsewhere in this MD&A, allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as income or loss relating to investments in certain proprietary investments. For the three months to September 30, 2008 Base EBITDA was $15.2 million as compared with $13.9 million in the third quarter of 2007 and $49.0 million for the first nine months of 2008 as compared with $36.8 million in the corresponding period in 2007, representing increases of 9% and 33%, respectively. For the three months ended September 30, 2008, Base EBITDA was $1.3 million higher than for the corresponding period in 2007, reflecting Management Fees that were higher by $5.2 million, partially offset by higher expenses net of an adjustment to reflect compensation expense as if the current bonus compensation arrangements had been in place in the prior period. Similarly, Base EBITDA for the nine months ended September 30, 2008 was $12.1 million higher than for the nine months ended September 30, 2007 due to higher Management Fees and higher other income more than offsetting higher expenses (including an adjustment in 2007 to reflect compensation expense as if the current bonus compensation arrangements had been in place in the prior period).

Income before taxes was $5.6 million for the quarter and $47.5 million for the nine months to September 30, 2008 compared with a pre-tax net income of $9.5 million for the third quarter of 2007 and $26.9 million for the nine months ended September 30, 2007.

Net income for the three and nine month periods ended September 30, 2008 was $3.7 million and $31.8 million as compared to a net income of $3.5 million and $14.6 million, respectively, for the corresponding periods in 2007.

Balance Sheet

Total assets at September 30, 2008 of $83.3 million are $197.6 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. SAM has also disposed of its long-term investments in oil and gas properties by means of a dividend and kind; these long term investments had a carrying value of approximately $10 million as at December 31, 2007. 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 September 30, 2008.

DIVIDENDS

In October 2008, a dividend of $0.025 was declared for the quarter ended September 30, 2008. While EPS for the quarter were $0.02/share, earnings were significantly impacted by the unrealized loss on proprietary investments which is a non-cash item. On an after-tax basis, these losses for the quarter totaled to $6.5 million or $0.045 per share. 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 September 30, 2008 and September 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. There was no change in the number of issued and outstanding shares during the third quarter or subsequent to September 30, 2008.

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

MANAGING RISK

Market Risk

We monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risk resulting from the nature of our business. 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.

Internal Controls

We have internal control policies related to our business conduct. They are intended to ensure conformity with the rules and regulations of a number of regulatory bodies including the Ontario Securities Commission and the Investment Industry Regulatory Organization of Canada ("IIROC"). IIROC related 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 to ensure continued adequacy.

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 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; 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 nine months ended September 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.

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 nine month period ended September 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 nine months ended September 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.

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 could be significant differences in accounting policy, which must be addressed. We have assembled a project team and we are working with external advisors on the first phase of the IFRS conversion. This phase involves assessing the future impact of these new standards on the Company's consolidated financial statements and then preparing an IFRS conversion plan based on the gap assessment between the current state and the current future state.

Management's Discussion & Analysis

OUTLOOK

The third quarter of 2008 has been particularly difficult for most investment managers and we have certainly not been immune from the issues that have engulfed the investment management industry. All of our Funds have suffered negative returns during the quarter, particularly the "long only" Funds. However, we did expect 2008 to be a difficult year for investors and made what we believe to be the most appropriate adjustments to position our Funds for a prolonged downturn and bear market. Many of our portfolios are holding above average levels of cash as well as significant long positions in gold and silver bullion, which we continue to view as a prudent cash alternative. We continue to be strong believers in the precious metals and energy sectors and consider this an opportune time to invest in companies in these sectors, which we believe are undervalued and have solid fundamentals. We remain confident that our investment strategies will achieve our growth objectives over the long term.

We had predicted that the financial system would be in dire straits due to a proliferation of assets of highly dubious value, overleveraging and a proliferation of derivatives that carried with them significant counterparty risk. In March of last year, we expressed our concern that the investment community had underestimated the extent to which lax lending practices and reckless financial engineering would affect areas outside the housing market. In the quarter ended September 30, 2008 we experienced, and continue to experience, the unwinding of the lending and credit bubble that has led to wealth destruction in almost all financial assets. We believe the negative market sentiment has been exacerbated by investment industry-specific issues, in particular, the excessive use of leverage and derivatives by a number of hedge funds. We do not employ excessive leverage in any of our investment strategies at SAM, and avoid using exotic instruments or derivatives in our portfolios. Our Sprott Hedge Fund LP and Sprott Hedge Fund LP II will employ, at a maximum, a leverage of $1 long and $1 short for every $1 of capital. Our short portfolios have proven to be a significant wealth protector in this environment. We have utilized our short exposure to take advantage of the current market weakness and to increase the Funds' defensive positioning going forward.

Many hedge funds have been forced to liquidate positions to meet redemptions or as part of a "de-leveraging" or risk reduction process, further pressuring stock prices. We have also positioned our portfolios to deal with situations as they develop, including possible redemptions. Our Funds have generally not been subject to any significant redemptions through the first three quarters of 2008. However, the investment environment continues to be unsettled and the risk of redemptions remains, particularly in our offshore Funds, where a substantial portion of those Funds are owned by institutional investors that may themselves be subject to redemption pressures.

We believe that our brand name and Funds are still at the early stages of penetration within the Canadian and global asset management industries. While future results are difficult to predict, we believe the size of the market for our services is large and growing despite existing market conditions 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 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. Recent additions to our investment team have significantly increased our portfolio management scope and 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. SRC holds a significant stake in PBS Coals. SRC has agreed, along with other principal shareholders of PBS Coals, to sell all of its shares in PBS Coals to Severstal Resources, the mining division of OAO Severstal. We expect that this transaction will result in a significant profit for SRC which, in turn, may translate into a substantial incentive fee for SCLP..

Management's Discussion & Analysis

This last couple of months' market turmoil has been a test for all involved in the investment industry. We are paying close attention to the events unfolding in this global financial crisis and believe that our defensive positioning will allow us to survive through these challenging times. We believe that our investment track record through varying economic conditions and market cycles has been and will continue to be a key factor in our success.

Additional information relating to the Company, including the Prospectus, is available on SEDAR at www.sedar.com.

Sprott Inc.

Unaudited Interim Consolidated Balance Sheets

	As at September 30, 2008	*As at December 31,* 2007
	$	$
Assets		
Current		
Cash and cash equivalents	**51,394,689**	94,293,092
Proprietary investments, held for trading *(Notes 2 and 4)*	**20,419,973**	97,309,400
Proprietary investments, available for sale *(Notes 2 and 4)*	**–**	3,281,196
Proprietary investments, precious metal bullion *(Notes 2 and 4)*	**–**	16,792,121
Fees receivable	**5,258,261**	54,911,862
Other assets	**1,419,726**	338,259
Total current assets	**78,492,649**	266,925,930
Long-term investments *(Notes 2 and 5)*	**–**	9,997,801
Fixed assets, net *(Note 8)*	**4,810,211**	3,949,107
	4,810,211	13,946,908
Total assets	**83,302,860**	280,872,838
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**4,443,530**	7,370,721
Compensation and employee bonuses payable	**11,664,250**	124,075,500
Income taxes payable	**2,919,493**	9,118,948
Total current liabilities	**19,027,273**	140,565,169
Future income tax liability *(Note 11)*	**1,953,000**	2,220,000
Total liabilities	**20,980,273**	142,785,169
Shareholders' equity		
Capital stock *(Note 6(a))*	**40,104,811**	14,801,842
Contributed surplus *(Note 6(a))*	**949,823**	113,220
Retained earnings	**21,267,953**	123,172,607
Total shareholders' equity	**62,322,587**	138,087,669
Total liabilities and shareholders' equity	**83,302,860**	280,872,838

See accompanying notes

Sprott Inc.

Unaudited Interim Consolidated Statements of Income, Comprehensive Income and Retained Earnings

	For the three months ended September 30, 2008	*For the three months ended* September 30, 2007	*For the nine months ended* September 30, 2008	*For the nine months ended* September 30, 2007
	$	$	$	$
Revenue				
Management fees	**32,860,329**	27,663,787	**102,250,941**	76,771,697
Crystallized performance fees	**1,257,621**	1,116,281	**5,554,039**	1,462,060
Unrealized and realized loss on proprietary investments	**(9,706,266)**	(887,565)	**(4,310,148)**	(7,452,106)
Impairment of long-term investments *(Note 5)*	**–**	(6,400,000)	**–**	(7,537,945)
Other income	**720,752**	32,013	**3,781,373**	594,058
Interest income	**293,753**	72,863	**778,087**	500,382
	25,426,189	21,597,379	**108,054,292**	64,338,146
Expenses				
Compensation and benefits	**9,512,719**	3,992,356	**29,313,289**	14,521,230
Trailer fees	**7,022,042**	6,142,583	**22,077,649**	17,503,378
General and administrative	**2,721,014**	1,471,536	**7,795,713**	3,814,674
Donations	**305,778**	11,528	**996,608**	42,428
Amortization	**269,031**	182,088	**382,332**	570,253
Interest expense	**–**	284,465	**–**	1,024,364
Total expenses	**19,830,584**	12,084,556	**60,565,591**	37,476,327
Income before income taxes for the period	**5,595,605**	9,512,823	**47,488,701**	26,861,819
Provision for income taxes *(Note 11)*	**1,927,165**	5,989,252	**15,720,000**	12,227,252
Net income and comprehensive income for the period	**3,668,440**	3,523,571	**31,768,701**	14,634,567
Retained earnings, beginning of the period	**21,349,513**	107,353,872	**123,172,607**	102,807,059
Dividends paid	**(3,750,000)**	(5,339,842)	**(138,399,355)**	(11,339,842)
Dividend tax refund	**–**	–	**4,726,000**	–
Premium paid on acquisition of common shares *(Note 6(a))*	**–**	(49,630)	**–**	(613,813)
Retained earnings, end of the period	**21,267,953**	105,487,971	**21,267,953**	105,487,971
Basic and diluted earnings per share *(Note 10)*	**$0.02**	$0.03	**$0.22**	$0.11

See accompanying notes

Unaudited Interim Consolidated Statements of Cash Flows

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the period	3,668,440	3,523,571	31,768,701	14,634,567
Add (deduct) non-cash items:				
Stock-based compensation	574,044	–	949,823	–
Amortization	269,031	182,088	382,332	570,253
Impairment of long-term investments	–	6,400,000	–	7,537,945
Future income taxes	–	–	(267,000)	–
	4,511,515	10,105,659	32,833,856	22,742,765
Other assets	(76,433)	(288,163)	(1,081,467)	(536,133)
Fees receivable	5,485,863	(1,206,758)	49,653,601	21,141,174
Income taxes payable	(15,359,847)	10,346,966	(6,199,455)	12,584,966
Accounts payable and accrued liabilities	(1,273,192)	(959,821)	(2,927,191)	(6,546,465)
Compensation and employee bonuses payable	2,887,276	(2,270,833)	(112,411,250)	(88,260,000)
Proprietary investments	9,706,265	1,633,015	96,962,744	(20,122,522)
Cash provided by (used in) operating activities	5,881,447	17,360,065	56,830,838	(58,996,215)
INVESTING ACTIVITIES				
Purchase of fixed assets	(267,535)	(167,072)	(1,243,436)	(361,114)
Long-term investments	–	531,352	(151,554)	3,789,789
Cash provided by (used in) investing activities	(267,535)	364,280	(1,394,990)	3,428,675
FINANCING ACTIVITIES				
Issuance of common shares	–	558,247	25,189,749	2,564,671
Dividend tax refund	–	–	4,726,000	–
Bank indebtedness	–	(6,900,000)	–	–
Repurchase and cancellation of common shares *(Note 6)*	–	(613,813)	–	(613,813)
Subordinated loan *(Note 7)*	–	–	–	12,000,000
Repayment of subordinated loan *(Note 7)*	–	–	–	(4,000,000)
Dividends paid	(3,750,000)	(5,339,842)	(128,250,000)	(11,339,842)
Cash used in financing activities	(3,750,000)	(12,295,408)	(98,334,251)	(1,388,984)
Net increase (decrease) in cash and cash equivalents during the period	1,863,912	5,428,937	(42,898,403)	(56,956,524)
Cash and cash equivalents, beginning of the period	49,530,777	6,221,100	94,293,092	68,606,561
Cash and cash equivalents, end of the period	51,394,689	11,650,037	51,394,689	11,650,037
Cash and cash equivalents:				
Cash	3,553,325	169,364	3,553,325	169,364
Cash at carrying broker	7,882,624	8,287,105	7,882,624	8,287,105
Short-term deposits	39,958,740	3,193,568	39,958,740	3,193,568
	51,394,689	11,650,037	51,394,689	11,650,037
SUPPLEMENTAL CASH FLOW INFORMATION				
Taxes paid	17,344,792	–	17,344,792	–
Interest paid	–	206,793	–	946,725

See accompanying notes

Sprott Inc.
Notes to the Unaudited Interim Consolidated Financial Statements *For the three and nine months ended September 30, 2008*

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 nine month period ended September 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 $98 million.

(b) Divestiture of long-term investments

In April 2008, SAM distributed the long-term investments 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). All such payments were made during the six month period ended June 30, 2008. All subsequent dividends paid are not related to the Reorganization.

(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, option holders 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 using a conversion factor of 27.5042984 Company shares for each SAM share, 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.

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 nine month periods ended September 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 unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian 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 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 interim 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 subsidiaries SAM and Sprott Consulting LP, 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 or quarterly.

The Company also earns performance fees, calculated for each particular fund and/or managed account as a percentage of: (i) the fund's/managed account's excess performance over the relevant benchmark; (ii) the increase in net asset values over a predetermined hurdle, if any; or (iii) the net profit in the fund over the performance period. Performance fee revenue is recognized when earned, according to agreements in the underlying funds and managed accounts. 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 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 second quarter of 2008.

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 and employee bonuses 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 nine month period ended September 30, 2008 (refer to Notes 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 interim 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 period.

Income taxes

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

Stock-based compensation

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

4. Proprietary Investments

Proprietary investments consist of the following:

	September 30, 2008	*December 31,* 2007
	$	$
PRECIOUS METAL BULLION		
Gold coins and bullion	–	9,385,664
Silver bullion	–	7,406,457
	–	16,792,121
SECURITIES DESIGNATED AS HELD FOR TRADING		
Gold certificates	–	16,857,351
Silver certificates	–	14,584,784
Public equities	**9,900,240**	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	**4,288,602**	–
Sprott Small Cap Equity Fund	–	3,428,775
Sprott All Cap Fund	**145,695**	–
Sprott Strategic Gold Fund LP	**73,839**	–
Sprott Capital LP	**135,837**	–
Sprott Opportunities Capital Fund LP	**159,619**	–
Sprott Strategic Offshore Gold Fund Ltd.	**5,716,141**	15,064,821
	20,419,973	97,309,400
SECURITIES AVAILABLE FOR SALE		
Private equities	–	3,281,196
Total proprietary investments	**20,419,973**	117,382,717

As at September 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. The Sprott Global Market Neutral Fund is an open-ended unincorporated mutual fund trust, which provides long term capital appreciation by investing in long and short positions in equity and equity-related securities of companies around the world, in a neutral approach.

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 arm's-length market transactions in similar oil and gas properties. Of the total loss, $7,537,945 was recorded in the second and third quarter of 2007 and a gain of $71,271 was recorded in the fourth quarter of 2007.

In April 2008, SAM distributed the long-term investments 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, September 30, 2008	5,453,693	150,000,000	40,104,811

Contributed surplus relates to stock options expense and 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	949,823
Balance, September 30, 2008	949,823

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 and $49,630 was recorded as at September 30, 2007 (as 25,552 of the 27,681 shares were repurchased and cancelled as at June 30, 2007 and 2,129 shares were repurchased and cancelled as at September 30, 2007).

During the three and nine month period ended September 30, 2008, a total of nil and 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.

(b) Stock option plans

(i) SAM

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; nd (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.

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, September 30, 2008	–	–

Immediately prior to the completion of the Offering, option holders 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.

(ii) Sprott Inc.

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

In the second quarter of 2008, the board of directors of the Company granted 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 three and nine months periods ended September 30, 2008, the Company recorded a compensation expense of $574,044 and $949,823, respectively, 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 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 9(b)).

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 2007, eliminated all gains on Molybdenum Equities.

As at September 30, 2008, the Company owns approximately 9.96% 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. For the three and nine month periods ended September 30, 2008, SAM incurred an expense of $315,667 and $657,667, respectively in artwork rental fees to Mr. Sprott and Sprott Securities Ltd.; no amount remained payable as at September 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 nine months ended September 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.

8. Fixed Assets

Fixed assets consist of the following:

	As at September 30, 2008		
	Cost	Accumulated amortization	Net book value
	$	$	$
Artwork	1,512,245	–	1,512,245
Furniture and equipment	1,649,884	730,952	918,932
Computer hardware and software	845,639	666,428	179,211
Leasehold improvements	2,862,211	662,388	2,199,823
	6,869,979	2,059,768	4,810,211

	As at December 31, 2007		
	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	377,000
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;

(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 September 30, 2008, there were no funds drawn from the credit facility.

10. Earnings Per Share

For the three and nine months ended September 30, 2008, basic and diluted earnings per common share is $0.02 and $0.22, respectively. For the three and nine months ended September 30, 2007, basic and diluted earnings per common share is $0.03 and $0.11, respectively.

11. Income Taxes

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

	Three months ended September 30, **2008**	*Nine months ended September 30,* **2008**
	$	$
Income taxes at statutory tax rate (33.5%)	**1,874,528**	15,908,715
Increase (decrease) in income taxes resulting from:		
Rate differences and other	**52,637**	(188,715)
Income tax provision as reported (effective tax rate of 34.4% and 33.1%)	**1,927,165**	15,720,000

	Three months ended September 30, **2007**	*Nine months ended September 30,* **2007**
	$	$
Income taxes at statutory tax rate (36.12%)	**3,436,032**	9,702,489
Increase (decrease) in income taxes resulting from:		
Non deductible write-down of long term assets	**2,311,680**	2,722,706
Rate differences and other	**241,540**	(197,943)
Income tax provision as reported (effective tax rate of 63% and 45.5%)	**5,989,252**	12,227,252

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 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 September 30, 2008, investments in funds and managed accounts managed by SAM, amounted to $20.4 million or 24.5% 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 $0.7 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 and Sprott Consulting LP. Assets under management refers to the total assets of Sprott 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 three 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 September 30, 2008, approximately $6.1 million or 7.3% of total assets was invested in proprietary investments priced in U.S. dollars ("USD"). Furthermore, a total of $1 million of cash, $1.2 million of accounts receivable and $0.2 million of other assets were denominated in USD. As at September 30, 2008, had the exchange rate between the USD and the Canadian 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 $0.3 million.

(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 and employee bonuses 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 Unaudited Interim Consolidated Financial Statements

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

16. Subsequent Event

On October 28, 2008, the board of directors of the Company declared an eligible dividend of $0.025 per share for the quarter ended September 30, 2008, payable on November 28, 2008 to the shareholders on record as at November 10, 2008.

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