RELENTLESS PURSUIT

Sprott Inc. | Annual Report 2008

$4.4 billion

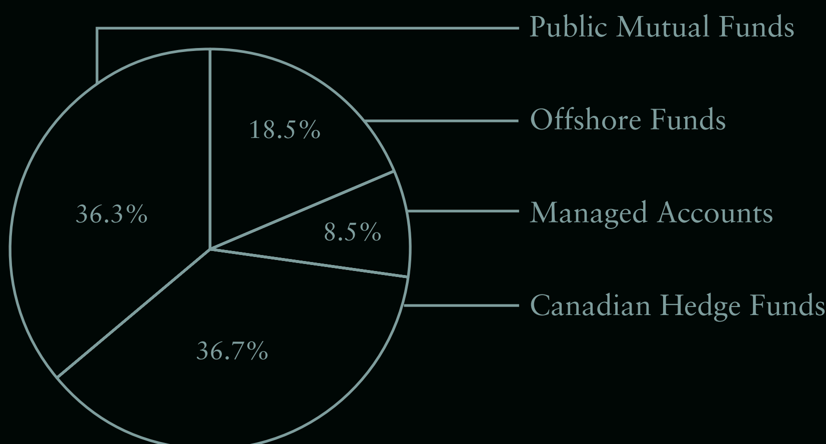
AUM among our investment funds, discretionary managed accounts and management of certain public companies

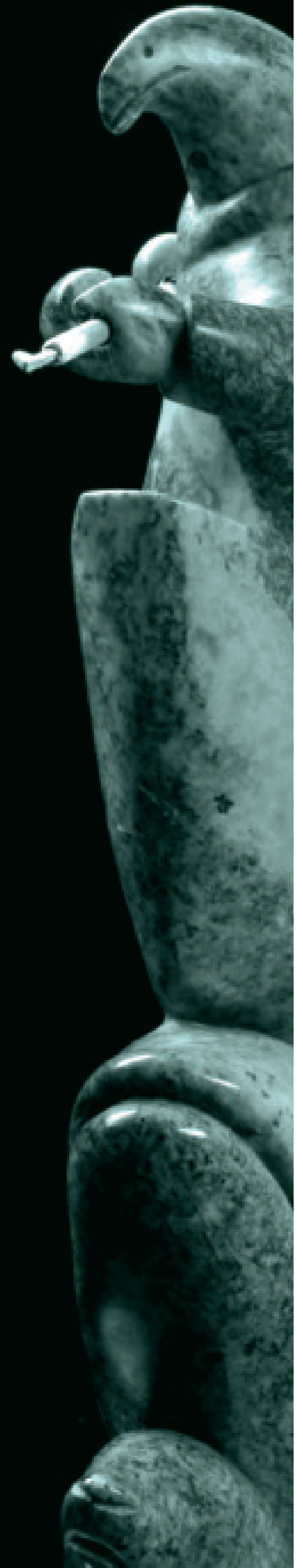
~90,000

Client Accounts

20

Investment funds





RELENTLESS PURSUIT

"Throughout history, we have witnessed a number of dramatic market declines, and most of these downturns have been followed by periods of significant investment outperformance. At Sprott, these recoveries have been ever more impressive, resulting in superior long-term performance for our clients. History has served us well because of our relentless pursuit of a deeper level of knowledge and understanding."

Eric Sprott, CA
President & CEO

LETTER TO SHAREHOLDERS

Eric Sprott, CA
President, CEO & Portfolio Manager

Funds:
Sprott Canadian Equity Fund, Sprott Energy Fund, Sprott Hedge Fund L.P. & L.P. II, Sprott Bull/Bear RSP Fund, Sprott Offshore Fund Ltd., Sprott Offshore II Fund Ltd., Sprott Capital L.P., Sprott Capital L.P. II

Our relentless pursuit to deliver superior performance for our clients has enabled us to become one of the fastest growing fund managers and one of the largest hedge fund managers in Canada. Although we cannot time the markets perfectly, our 28-year track record shows that over the long term, we have achieved this objective.

At Sprott we aim to recognize investment themes and trends early on. Our investment team correctly predicted a financial meltdown in 2008, but not the destruction it would have on the global economy. The unwinding of the excessive leverage caused by banks and hedge funds overwhelmed the investment fundamentals. This market downturn affected all sectors, even those that have historically fared well during bear markets. This made it an especially challenging year for asset managers, and a difficult year in which to debut as a public company.

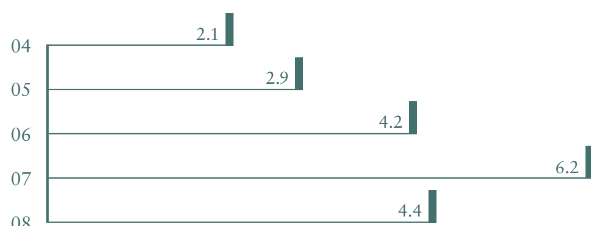
Last year was one of the most challenging of my 40 years in investment management. Volatility was extreme and the meltdown was global, evidenced by the 27% decline of the MSCI World Index. Small cap companies and companies in need of financing were hit the hardest. Gold and gold stocks, which we favour in these market conditions, did not perform as expected due to the surprising strength of the U.S. dollar. As the global liquidation deepened, institutions were forced to unravel their excess leverage positions and investors sought the perceived safety of U.S. dollars. Nevertheless, gold was one of the three asset classes that held its value in 2008 in almost all currencies. The other two were cash and government bonds. In fact, gold in Canadian dollars has recently hit all-time highs.

In this environment, it was nearly impossible for *long only* fund managers, whose mandate is to invest in stocks, to generate positive returns in 2008. Many of our own *long only* funds underperformed their benchmark indices last year due to their exposure to smaller, more volatile companies. This affected performance fees for the year but also translated into lower employee bonuses, which mitigated the net impact to profitability at Sprott Inc. In the economic crisis, most of our portfolios took on a more defensive position. However, our fund managers are sticking to their investment themes and trends based on long-term fundamentals that we believe will prevail over time.

In our view, aside from cash, T-bills and gold, the only way to survive and prosper in 2008 was to short the stock market. But you needed to short the right stocks, namely in the financial sector (and a lot of so-called hedge funds did not), and avoid using excessive leverage (and a lot of so-called hedge funds did not). The majority of our hedge funds had positive returns last year, which on a relative basis was impressive compared to the returns of the Scotia Capital Canadian Hedge Fund Asset Weighted Index (-16%) and the S&P/TSX Composite Total Return Index (-33%).

Against an industry backdrop of massive net redemptions, we had net positive sales in 2008. This is a testament to our track record of success, loyal client base, new products and relatively strong performance from our hedge funds. In the fourth quarter, we experienced some sizeable redemptions by our institutional clients as many offshore hedge fund clients were forced, or chose, to liquidate their fund holdings as part of a de-leveraging or risk reduction process. Such redemptions did not have a material impact on our business and we continue to manage an appropriate level of liquidity in all our Funds.

Assets Under Management (*Figure 1*)



The significant market depreciation caused our assets under management (AUM) to decrease from $6.2 billion as at December 31, 2007 to $4.4 billion as at December 31, 2008. Net market depreciation occurred primarily in our domestic *long only* mutual funds. Our AUM decreased by 28% in 2008 but still showed a compound annual growth rate (CAGR) of more than 20% since 2004 (*Figure 1*). In the first two months of 2009, we have achieved positive investment returns in a number of our Funds which is an encouraging start to the year.

Our 28-year track record shows that over the long term, we have delivered superior performance for our clients.

Without question, conditions in the capital markets this past year have been the worst that most of us have ever seen. But markets like these present buying opportunities and new investment ideas. We continue to generate ideas for new investment products and are in the process of introducing two new funds: the Sprott Gold Bullion Fund, which will primarily invest in unencumbered gold bullion and permitted gold certificates, and the FNSSC[1] Multi-Manager Fund, a Fund composed of five Sprott mutual funds, which will be exclusively available to FNSSC members.

Market conditions have also required us to make changes to our investment product offerings. Sprott Strategic Gold Master Fund Ltd., with assets of approximately US$12 million, became too small to manage economically. As a result, this Fund was liquidated and its associated feeder Funds mandatorily redeemed as at December 31, 2008. In January 2009, the Board of Sprott Molybdenum Participation Corporation (Sprott Moly) announced that substantially all of Sprott Moly's assets would be distributed to its shareholders, given recent developments in the molybdenum market and the fact that Sprott Moly's shares were trading at a significant discount to net asset value.

While assets declined, we saw strength in other key financial measures in 2008. Due to a strong start to the year, monthly average AUM increased by 22% to $6.3 billion, from $5.2 billion in 2007. This led to a 15% increase in Management Fees to $124.0 million, from $108.0 million in 2007. In 2007, most of our mutual funds and hedge funds generated Performance Fees. In 2008, the global economic crisis led to a significant decrease in such fees. However, we did earn substantial Performance Fees through Sprott Consulting L.P. from its management of Sprott Resource Corporation. Of the $47.9 million in Performance Fees in 2008, $35.6 million was earned by Sprott Consulting, a vehicle we believe has tremendous upside potential going forward.

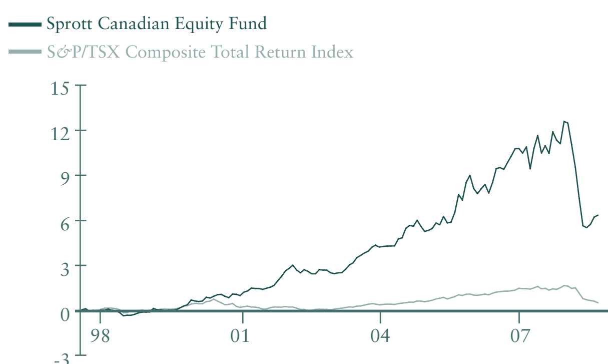
[1] Federation of National Specialty Societies of Canada

For most of our Funds and Managed Accounts, any performance deficit, which occurs when a Fund's investment performance does not exceed the specified benchmark or threshold, must first be earned back before performance fees on that Fund or Managed Account are generated. At December 31, 2008, Funds accounting for 28% of total Funds' (i.e. excluding Managed Accounts) AUM, earned performance fees and therefore had no deficit to carry forward. Funds totaling a further 31% had small deficits to carry forward and mutual funds accounting for 30% were within 10% of their performance fee benchmarks. Given these metrics and encouraged by our Fund performance in early 2009, we believe that Sprott is well positioned to generate performance fees in 2009 and beyond.

Throughout our investment careers, my colleagues and I have navigated through a number of significant performance dips due to both our investment decisions and market conditions. What is important to remember is that most of these downturns have been followed by considerable recoveries in our Funds. The table on the next page outlines the declines and recoveries that the Sprott Canadian Equity Fund has experienced over the past 11 years (*Figure 3*). The average peak to trough return was -25% and the average recovery one year after reaching the trough was +54%. The current downturn shows that the Sprott Canadian Equity Fund peaked in June 2008 and declined by 57% in December 2008. We believe we are in a strong position when the market does recover.

Total Return Since Inception (*Figure 2*)

Total return from September 27, 1997 to February 27, 2009



Performance remains our number one focus.

Looking at our oldest and largest Fund—the Sprott Canadian Equity Fund—you can see that over time our returns have been strong, particularly compared to the performance of the S&P/TSX Composite Total Return Index (*Figure 2*). Our strategies have proved to work over the long term and I believe we are still making the right calls. Sometimes, however, it does take the market time to come around to what we believe in. So far we have been shocked about the reluctance of the gold price to fully reflect the financial crisis that we are in, but we have every confidence that ultimately it will. Gold has actually shown a dramatic rise in the first two months of 2009, which has contributed to the solid performance of a number of our Funds. We also remain very confident in our energy themes. There is not a day that goes by that we do not get a data point that tells us that the world did in fact hit peak oil in 2005 and supply will start to decrease rapidly going forward.

At the end of 2008, Sprott remains financially strong. Our cost structure ensures that the largest expenses, compensation and trailer fees, are correlated with revenues while fixed costs comprise a relatively low percentage of total revenues. This structure ensures that we are not dependent on outside financing and are able to generate positive cash flows to fund operations and pay dividends. We also have a strong balance sheet with a healthy cash position and no debt.

The past year has been a trying one, due to a widespread economic crisis complicated by hedge fund scandals and closures of funds and fund companies. As a regulated asset manager, we have always been mindful of counterparty risk, the potentially destructive effects of excessive leverage and the importance of a strong compliance culture. We continue to build on this strong foundation, with ongoing due diligence and risk assessment that have become ingrained in the core of our operations.

The current global economic crisis is unprecedented in scale and scope, making investment analysis unusually challenging. However, our investment track record, experienced investment professionals and innovative approach have successfully navigated our Funds and Managed Accounts through volatile markets before and,

Historical Drawdowns & Recoveries for the Sprott Canadian Equity Fund (*Figure 3*)

Peak	Trough	Peak To Trough Return	Returns One Year After Trough
October 1997	October 1998	-52.2%	68.2%
April 1999	August 1999	-17.1%	98.9%
November 2000	January 2001	-23.1%	54.6%
June 2002	July 2002	-22.4%	53.5%
December 2004	May 2005	-15.6%	58.8%
May 2006	June 2006	-24.4%	46.0%
July 2007	August 2007	-23.0%	0.7%
	Average	**-25.4%**	**54.4%**
June 2008	December 2008	-56.6%	To be determined

we believe, will do so again. Sprott was founded on the knowledge, commitment and experience of top investment professionals who take a consistent, disciplined approach to investing, based on sound fundamental analysis and independent research. Heading into 2009, we continue to build on our belief in precious metals as a safe haven in times of economic turmoil and our range of Fund products offer rewarding investment opportunities through these difficult markets.

Performance remains our number one focus. Strong performance drives our AUM directly through market appreciation and indirectly through increased Fund sales. Outperforming our benchmarks and hurdle rates results in Performance Fees, which benefit both our shareholders and our employees. The fact that our employees are also stakeholders in both our Funds and the Sprott Inc. stock further aligns our interests with yours.

We are also committed to building on the Sprott brand name and growing our business by focusing on four key growth initiatives: leveraging our deep and broad investment team; increasing sales and marketing efforts; introducing new products; and capitalizing on the opportunity to manage corporate assets through Sprott Consulting L.P. These initiatives are further explained in the *Growth Strategy* section of this annual report.

In closing, I would like to express my appreciation to our clients for their loyalty and confidence, our shareholders for their support, and our Board of Directors for their sage counsel. I would also like to thank the entire Sprott team for their tireless efforts over the past year. The dedication and commitment shown by our team, particularly in these tough markets, provides us with a solid platform for growth. I look forward to updating you on our progress as we continue to evolve, grow and develop our business in Canada and abroad.

Eric Sprott, CA
President & Chief Executive Officer

FINANCIAL HIGHLIGHTS

Assets Under Management

Assets under management (AUM) were $4.4 billion as at December 31, 2008, compared to $6.2 billion as at December 31, 2007. Net sales in 2008 were $95 million but market depreciation led to a $1.9 billion decrease in AUM. Monthly average AUM for 2008 rose by 22% to $6.3 billion, from $5.2 billion in 2007.

Fee Revenue

Total fee revenue was $171.9 million in 2008, compared to $237.2 million in 2007. Management Fees were $124.0 million, representing an increase of 15%, or $16.0 million, over 2007. Performance Fees were $47.9 million, representing a decrease of 63%, or $81.2 million, compared to 2007. The majority of the Performance Fees for 2008, or $35.6 million, were received from Sprott Consulting L.P. from its management of Sprott Resource Corporation (TSX:SCP).

Profitability

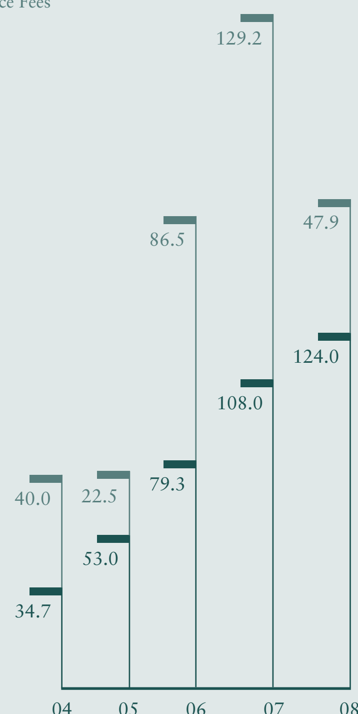
Base EBITDA[1] was $57.1 million in 2008. On a comparable basis, had the bonus pool program that was implemented effective in 2008 been in effect for 2007, and everything else remaining constant, Base EBITDA would have been $49.3 million in 2007. Net income was $52.1 million in 2008, and represented earnings per share (basic and diluted) of $0.36. Net income in 2007 was $42.3 million or $0.32 per share (basic and diluted).

Financial Strength

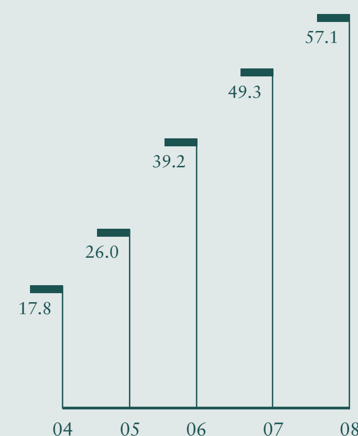
Sprott Inc. remains financially strong with a net cash balance of $90.0 million and no debt at the end of December 2008. Its flexible cost structure ensures that the Company is not dependent on outside financing and is able to generate positive cash flows to fund operations and pay dividends. It also provides a solid platform for growth.

[1] Base EBITDA is a financial measure used by the Company to assess the performance of its business that is not recognized under Canadian generally accepted accounting principles (GAAP). This non-GAAP measure should not be considered an alternative to performance measures determined in accordance with GAAP and may not be comparable to similar measures presented by other issuers. For additional information regarding the Company's use of non-GAAP measures, including the calculation of these measures, please refer to the *Non-GAAP Financial Measures* section of the Company's Management's Discussion and Analysis and its financial statements.

Fee Revenue



Base EBITDA



OPERATIONAL HIGHLIGHTS

Public offering

On May 15, 2008, the Company completed a $200 million Initial Public Offering (IPO) on the Toronto Stock Exchange (TSX) via a secondary offering of common shares. Sprott Inc. shares are listed on the TSX under the symbol "SII".

New Products

Sprott continues to generate ideas for new investment products and has introduced 11 Funds since January 2006. The most recent Funds created are the Sprott All Cap Fund (September 2008), the Sprott Gold Bullion Fund (March 2009) and the FNSSC Multi-Manager Fund, a Fund comprised of five Sprott mutual funds (April 2009).

Reorganization

Sprott Asset Management (SAM) plans to restructure its operations, effective in the first half of 2009, into three business lines: portfolio management, private wealth management and consulting services. In addition to creating tax efficiencies, this restructuring will provide Sprott with the opportunity to separately brand and market the three areas of its operations.

Sprott Consulting L.P.

Sprott Consulting L.P. has proven to be a valuable addition to the Company and is positioned to be an avenue for revenue growth and business expansion. In 2008, Sprott Consulting was entitled to receive management and performance fees for its management of Sprott Resource Corporation (SRC) based on SRC's annual profitability above a specified hurdle. This hurdle was exceeded as SRC realized a significant profit from the sale of its stake in PBS Coals Corporation.

Awards & Accolades

Listed on Barron's *The World's 75 Best Hedge Funds*: Sprott Offshore Fund Ltd. and Sprott Opportunities Hedge Fund L.P.
April 2008

Best Long/Short Hedge Fund globally by HFM Week: Sprott Offshore Fund Ltd.
October 2008

Best U.S. Equity Fund, Absolute Return Award Nomination: Sprott Hedge Fund L.P.
November 2008

Management Firm of the Year, Absolute Return Award Nomination: Sprott Asset Management
November 2008

INVESTMENT TEAM

Our award-winning portfolio managers have track records of delivering superior investment returns over the long-term.

Jean-François Tardif, CFA
Senior Portfolio Manager

Jean-François was recruited to Sprott Asset Management (SAM) in November 2001 based on his stock picking abilities and portfolio management successes. The performance of the hedge funds he now manages, particularly over the past year, demonstrates his skills of surviving in a bear market. A key to his success is his ability and willingness to short stocks, a sign of a true hedge fund manager. He has also modified his strategy in this market environment by investing with a larger emphasis on flexibility and income generation. In his view, some of the wealth destruction that has taken place over the past six months is partly due to investment strategies based on a quick market rebound. However, he believes that investing in the current environment must be based on hard facts, regardless of how bad they may be. Jean-François is facing the facts of this downturn and investing accordingly.

15 plus years of experience
Funds:
Sprott Opportunities Hedge Fund L.P.,
Sprott Opportunities RSP Fund,
Sprott Opportunities Offshore Fund Ltd,
Sprott Opportunities Capital Fund L.P.

Peter Hodson, CFA
Senior Portfolio Manager

Peter Hodson joined SAM in January 2006 with an impressive track record in managing small-cap growth stocks. He currently manages the Sprott Growth Fund. Although the Fund increased by 35% in 2007, it produced negative returns in 2008 due to extreme market volatility, investors favouring large cap stocks, and good fundamentals not being rewarded. Although growth stocks are extremely cheap by historical standards and at lower valuations than *value* stocks, the timing of a rebound is uncertain. As a result, Peter is positioning the Fund for a recovery by sticking with small- and mid-cap stocks, but limiting the downside by focusing on quality, high-growth, debt-free companies and a heavier gold weighting. He continues to purchase growth companies assuming that if a company can grow in this environment, it should do exceptionally well with a better economic backdrop.

20 plus years of experience
Funds:
Sprott Growth Fund

Charles Oliver, HBSc Geology, CFA
Senior Portfolio Manager

Jamie Horvat, LIFA
Senior Portfolio Manager

Charles Oliver and Jamie Horvat, who have worked as an investment team since 2004, joined SAM in January 2008. The award-winning team has strong expertise in precious metals, resources and large cap stocks. Charles and Jamie started managing the Sprott Gold & Precious Minerals Fund in January 2008, working closely with John Embry, Chief Investment Strategist, who had previously managed the Fund since 2003 . The team also manages the Sprott All Cap Fund, which was launched in September 2008. Despite the strength of gold bullion in 2008, the Gold & Precious Minerals Fund performed poorly due to the Fund's exposure to small gold companies. While the Fund diversified into larger cap names, it still has significant exposure to small- to mid-cap stocks, which are now performing better as investors believe they have been oversold. The All Cap Fund allows Charles and Jamie to capture valuation discrepancies between small-, mid- and large-cap companies. Large liquid names make up the majority of the portfolio, while small- and mid-caps help to add alpha.

Charles and Jamie share a faith in the fundamental value of gold, particularly in times of economic crisis and geopolitical turmoil. Their target price for gold bullion is over $1,000 this year. Over the next three years, they project gold to reach $2,000. They are also *peak oil* theorists. Commodities, they say, are in an unprecedented boom that will last for years because of sustained strong demand from the rapidly industrializing economies of China and India, and years of underinvestment in mineral exploration. In light of the fear in the marketplace, Charles and Jamie believe now is the time to buy really good companies at depressed valuations.

These individuals follow a diverse range of investment styles and apply them to a broad spectrum of sectors.

20 plus years of experience
Funds:
Sprott Gold & Precious Minerals Fund, Sprott All Cap Fund, Sprott Global Equity Fund, Sprott Global Market Neutral Fund

10 plus years of experience
Funds:
Sprott Gold & Precious Minerals Fund, Sprott All Cap Fund, Sprott Global Equity Fund, Sprott Global Market Neutral Fund

INVESTMENT TEAM

Allan Jacobs, CA (S.A.)
Director of Small Cap Investments

Peter Imhof
Investment Strategist

While our investment professionals are guided by the same fundamental investment discipline, our Funds reflect the individual investment styles and philosophies of our portfolio managers and investment strategists.

Allan Jacobs and Peter Imhof joined SAM in August 2007 as experts in the small- and mid-cap space. They manage the Sprott Small Cap Equity Fund and the Sprott Small Cap Hedge Fund. Combining value and growth investment styles, they select a diversified portfolio of securities that offer a good balance between reasonable valuations and attractive growth prospects relative to their peers. Consistent with the poor performance of the small-cap sector overall, the Sprott small-cap funds had a disappointing year in 2008. It was the first year of underperformance in the eight years in which Allan and Peter have worked together as a team. The main problem for many smaller public companies has been not so much a flight to quality, but a flight to liquidity. When the risk premium on stocks goes up, people want to have more liquid stocks. Most of the companies in the portfolios are not illiquid, but they are a lot less liquid than large caps.

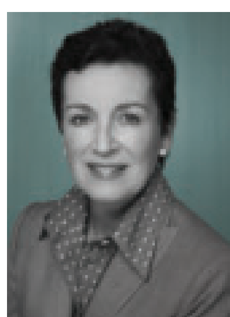
The team took significant action in the fourth quarter of 2008 to improve the quality of their portfolios given the rapidly changing environment. They sold stocks which had performed poorly, particularly selective energy and base metal stocks which were impacted by the collapse in commodity prices, and continue to buy well-managed companies with strong earnings, modest valuations and low debt. The generally held view is that the economy will worsen significantly in 2009 and earnings will decline accordingly. The extent to which this has already been discounted in stock prices after the huge declines of 2008 is the subject of much debate. As a result, Allan and Peter are taking a cautious approach to investing despite very low valuations, and for the first time, have taken short positions in the Small Cap Equity fund.

25 plus years of experience
Funds:
Sprott Small Cap Equity Fund,
Sprott Small Cap Hedge Fund

10 plus years of experience
Funds:
Sprott Small Cap Equity Fund,
Sprott Small Cap Hedge Fund

Our portfolio managers, investment and market strategists, together with the support of our research team, are committed to seeking out optimal investments for our clients. We have a team-based approach to our investment decision-making. Themes and opportunities are discussed daily. We carefully explore, analyze and select what we consider to be an investment portfolio of the *best ideas* that equity markets have to offer in the current and forecasted economic environment. Consistent among the team is our relentless pursuit of undervalued investment opportunities.

John Embry
Chief Investment Strategist



Anne Spork, CIM
Vice President &
Senior Portfolio Manager

Kevin Bambrough
Sprott Consulting L.P.
President

David Tomljenovic, MBA. LL.M., CIM
Associate Portfolio Manager

Jamie Spreng, MBA
Associate Portfolio Manager

Eric Nuttall, CFA, MBA
Associate Portfolio Manager

FUND PERFORMANCE

For the period ended December 31, 2008

Sprott Mutual Funds	YTD (27/02/09)	1 year	3 years	5 years	10 years	(Net of all fees) Inception
Sprott Canadian Equity Fund Series A (1997)	9.04%	-43.71%	-3.66%	6.89%	23.15%	18.47%
Sprott Gold & Precious Minerals Fund Series A (2001)	22.41%	-49.63%	-13.05%	-9.08%	—	13.08%
Sprott Energy Fund Series A (2004)	-8.59%	-64.49%	-23.70%	—	—	-1.49%
Sprott Growth Fund Series A (2006)	-2.05%	-62.56%	—	—	—	-15.32%
Sprott Global Equity Fund[1] Series A (2007)	-17.69%	-32.95%	—	—	—	-23.68%
Sprott Small Cap Equity Fund Series A (2007)	2.71%	-53.13%	—	—	—	-39.21%
Sprott All Cap Fund[2] Series A (2008)	—	—	—	—	—	—

For the period ended December 31, 2008

Sprott Hedge Funds	YTD (27/02/09)	1 year	3 years	5 years	10 years	(Net of all fees) Inception
Sprott Hedge Fund L.P.[3] Class A (2000)	16.42%	-4.35%	14.13%	15.86%	—	24.55%
Sprott Hedge Fund L.P. II Class A (2002)	14.38%	6.12%	16.75%	16.72%	—	10.66%
Sprott Bull/Bear RSP Fund[4] (2002)	14.24%	8.18%	18.23%	17.67%	—	14.32%
Sprott Opportunities Hedge Fund L.P.[3] Class A (2004)	0.46%	0.31%	11.05%	—	—	22.46%
Sprott Opportunities RSP Fund (2005)	0.49%	0.14%	10.88%	—	—	11.61%
Sprott Small Cap Hedge Fund (2007)	6.75%	-50.89%	—	—	—	-23.21%
Sprott Global Market Neutral Fund Class A (2008)	-2.10%	—	—	—	—	-10.37%

[1] Post-distribution of $0.43 at 12/31/2008.
[2] In accordance with NI 81–102, we will not publish returns for this fund until it is one-year old.
[3] Please be advised that the Sprott Hedge Fund L.P. and Sprott Opportunities Hedge Fund L.P. are closed to new investments.
[4] Post-distribution of $2.24 at 12/31/2008.

For the period ended December 31, 2008

Sprott Offshore Funds	YTD (27/02/09)	1 year	3 years	5 years	10 years	(Net of all fees) Inception
Sprott Offshore Fund Ltd.	17.30%	-12.90%	15.98%	17.98%	—	22.64%
Sprott Offshore II Fund Ltd.	10.58%	-0.68%	—	—	—	8.23%
Sprott Capital, L.P.	17.27%	-12.87%	15.93%	17.82%	—	22.32%
Sprott Capital, L.P. II	10.77%	-2.15%	—	—	—	-2.15%
Sprott Strategic Offshore Gold Fund Ltd.[5]	N/A	-75.87%	-25.87%	-16.26%	—	-15.51%
Sprott Strategic Gold Fund, L.P.[5]	N/A	-75.99%	-26.33%	-16.87%	—	-16.04%
Sprott Opportunities Offshore Fund Ltd.	0.22%	1.20%	—	—	—	9.51%
Sprott Opportunities Capital Fund, L.P.	0.14%	0.90%	—	—	—	9.31%

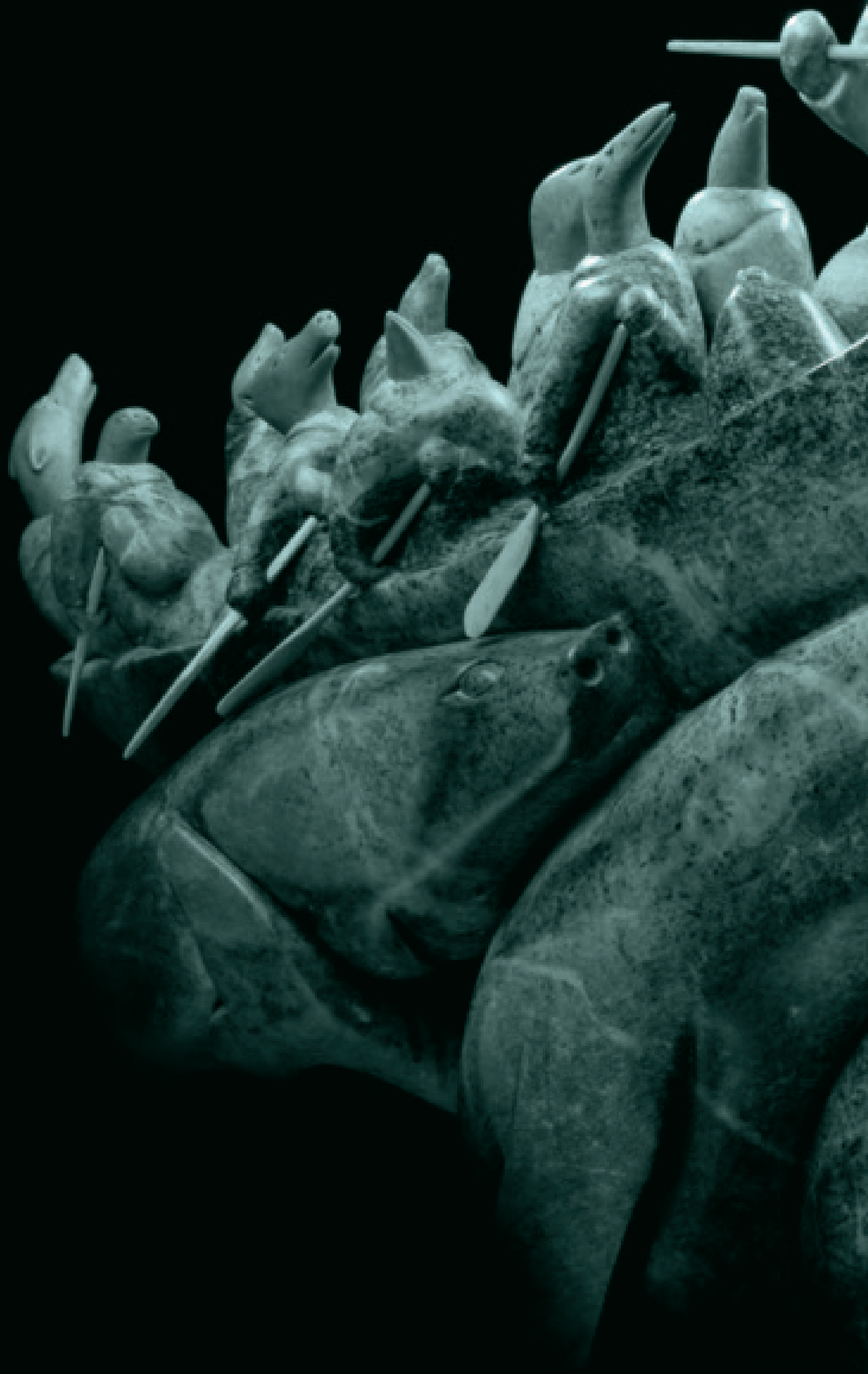
For the period ended December 31, 2008

Indices	YTD (27/02/09)	1 year	3 years	5 years	10 years
S&P/TSX Composite Total Return Index	-9.09%	-33.00%	-4.80%	4.16%	5.34%
S&P/TSX Global Gold Index	-1.15%	0.76%	7.46%	6.51%	—
S&P/TSX Capped Energy Total Return Index	-8.73%	-35.78%	-9.36%	9.42%	—
S&P/TSX Small Cap Total Return Index	-7.06%	-45.49%	-15.01%	-6.28%	—
S&P 500 Index	-18.62%	-38.49%	-10.22%	-4.07%	-3.03%
Dow Jones Industrial Average	-19.52%	-33.84%	-6.44%	-3.44%	-0.45%
NASDAQ Composite	-12.63%	-40.54%	-10.58%	-4.67%	-3.24%
MSCI World Index (CAD)	-14.37%	-27.40%	-6.68%	-1.79%	-2.94%

[5] Sprott has taken steps to dissolve and liquidate the assets of the its two offshore gold funds effective December 31, 2008.

GROWTH STRATEGY

Sprott Inc. is one of the fastest growing fund managers and one of the largest hedge fund companies in Canada; however, we believe that our brand name and Funds are still at the early stages of penetration within the Canadian and global asset management industries.



Key Growth Initiatives

Leverage deep and broad investment team

Within the last three years, we have hired five award-winning portfolio managers and investment strategists with different areas of expertise including small caps, large caps, gold and precious metals, growth companies and hedge funds. As a result, we have the capacity and diversity to manage more money and launch new funds.

Increase sales and marketing efforts

Sprott has multiple distribution channels to sell its Funds, including retail financial advisors and dealers, private clients, offshore funds and private company management. We continue to look for ways to leverage the Sprott brand name in Canada and internationally in 2007, we established our *wholesaler* sales effort to further support our Fund sales to the advisor and dealer industry. In 2009, we plan to launch our private wealth division to attract more clients and build up our assets.

Introduce new products

The funds we launch are based on the expertise of our portfolio mangers and in response to changing investor sentiment and evolving investment themes. Nine Sprott Funds have been created since January 2006, including two in 2008. Two additional Sprott Funds will be launched in the first half of 2009.

Opportunity to manage corporate assets through Sprott Consulting L.P.

Through Sprott Consulting L.P. (SCLP), we have introduced into our business operations the concept of providing management and administrative services to public companies. SCLP is another vehicle for us to leverage the expertise of our investment team and provides us with the ability to invest in private companies and take part in corporate transactions. Currently, SCLP manages Sprott Resources Corporation (TSX:SCP), which invests in early stage corporate investments in the resource sector.

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MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion & Analysis ("MD&A") of financial condition and results of operations presents an analysis of Sprott Inc. (the "Company") and its subsidiaries as of December 31, 2008 compared with December 31, 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 Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007 and the notes thereto.

The audited annual 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 audited annual consolidated financial statements, the acquisition of SAM for the year ended 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. The MD&A has been prepared on the same basis.

Forward Looking Statements

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those listed in the "Risk Factors" section of the Company's annual information form dated March 24, 2009 (the "AIF"). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of the date of this MD&A and will not be updated or revised except as required by applicable securities law.

Non-GAAP Financial Measures

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

Our key performance indicators include:

Assets Under Management

Assets Under Management or AUM refers to the total assets of our 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.

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 December 31, 2008, we had approximately 90,000 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 December 31, 2008, we managed approximately $4.4 billion in assets among our various Funds and Managed Accounts.

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 compensation and benefits and trailer fees. With respect to compensation and benefits, employees are paid a base salary and could be entitled to share in a bonus pool, with the size of such bonuses being tied directly to individual performance and the overall financial performance of the Company. Trailer fees are paid to dealers that distribute units of a Fund. Such dealers may receive a trailer fee (annualized but paid monthly or quarterly) of up to 1% of the value of the assets held in the respective Fund by the dealer's clients. 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 net assets. Management Fees accrue daily or monthly, depending on how frequently a particular Fund is valued, 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: net sales (Funds and Managed Accounts sales less redemptions) and the changes in the market values of the assets in the Funds and Managed Accounts.

Management Fees are less variable and more predictable than Performance Fees. Management Fees are generally closely correlated with changes in AUM. However, the rate of change in our Management Fees may not exactly mirror the rate of change in our AUM, which is primarily a result of two factors. First, multi-series or multi-class structures are offered in some of our Funds whereby the Management Fee differs among the applicable series or classes. Second, mutual funds have the highest rate of Management Fees, followed by hedge fund and offshore fund Management Fees; therefore, the balance of AUM among our various Funds impacts Management Fees as a percentage of AUM. As at December 31, 2008, domestic hedge Funds accounted for 36.7% of AUM compared with 22.1% at December 31, 2007 while mutual Funds accounted for 36.3% of AUM compared with 54.8% in the prior year. Offshore Funds at December 31, 2008 totaled 18.5% of AUM as compared with 16.1% at December 31, 2007 and Managed Accounts at December 31, 2008 accounted for 8.5% of AUM compared with 7.0% in the prior year.

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 domestic Fund 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. 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. These Performance Fees, as well as the related allocation to the employee bonus pool, are accrued for in the financial statements of SAM for the appropriate month.

The employee bonus pool component of compensation and trailer fees are correlated with average AUM. The increase in trailer fees over the past several years is reflective of the increase in domestic Fund sales through the advisor and dealer channel as well as increasing average AUM. We do not pay trailer fees on certain series/classes of domestic mutual Funds and hedge Funds or our offshore hedge Funds.

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 24% 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 and Managed Accounts 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. Subsequent to SAM's December 31, 2007 year end, we disposed of a majority of our proprietary investments, as part of the reorganization undertaken in connection with the Offering. We will continue to seed our Funds and may make other proprietary investments in the future, as appropriate.

Highlights

Financial highlights for the year ended December 31, 2008 were:

- Assets Under Management decreased by $1.8 billion to $4.4 billion at December 31, 2008 or 28.4% from December 31, 2007. Monthly average assets under management for 2008 were approximately $6.3 billion as compared to approximately $5.2 billion in 2007. Net sales for the year were $95 million but investment performance resulted in AUM decreasing by approximately $1.9 billion.
- Management Fees for the year ended December 31, 2008 were $124.0 million, representing an increase of $16.0 million or 14.8% over 2007.
- Performance Fees for the year ended December 31, 2008 of $47.9 million were $81.2 million or 62.9% lower than in 2007.
- Base EBITDA for the year to December 31, 2008 was $57.1 million. 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 $49.3 million for the year ended December 31, 2007.
- Net income for the year ended December 31, 2008 was $52.1 million, and represented earnings per share, basic and diluted, of $0.36. Net Income for the year ended December 31, 2007 was $42.3 million, representing earnings per share, basic and diluted, of $0.32. Had the 150 million issued and outstanding shares been outstanding for the full years ended December 31, 2008 and December 31, 2007, earnings per share, basic and diluted, would have been $0.35 and $0.28, respectively.

Selected Annual Financial Information

(In $ 000's)	As at December 31 2008	2007	2006
Assets Under Management			
Assets Under Management	4,448,708	6,215,273	4,239,291
Balance Sheet Information			
Total Assets	123,430	280,873	248,380
Total Liabilities	43,916	142,785	133,374
Shareholders' Equity	79,514	138,088	115,006
Income Statement Information			
Total Revenue	165,757	227,621	198,626
Net Income	52,136	42,282	34,786
Net Income Per Share – basic	.36	.32	.27
Net Income Per Share – fully diluted	.36	.32	.27

Summary Financial Information

	For the year ended December 31, 2008 $	For the year ended December 31, 2007 $
Revenue		
Management fees	123,970	108,020
Performance Fees	47,922	129,158
Unrealized and realized losses on proprietary investments	(11,722)	(4,240)
Impairment of long-term investments	–	(7,467)
Other income	4,588	1,522
Interest income	999	628
Total revenue	165,757	227,621
Expenses		
Compensation and benefits	46,823	141,489
Trailer fees	26,491	24,415
General and administration	11,006	6,858
Donations	1,651	822
Amortization	574	513
Interest expense	–	1,143
Total expenses	86,545	175,240
Income before income taxes	79,212	52,381
Provision for income taxes	27,076	10,099
Net income and comprehensive income for the period	52,136	42,282
Other expenses[1]	2,098	1,798
Provision for income taxes	27,076	10,099
EBITDA	81,310	54,179
Unrealized and realized losses on proprietary investments	11,722	4,240
Impairment of long-term investments	–	7,467
Discretionary bonus adjustment[2]	–	80,331
Performance fees net of performance fee related bonus pool[3]	(35,941)	(96,869)
Base EBITDA	57,091	49,348

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 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.

Results of Operations

Overall Performance

AUM fell to $4.4 billion at December 31, 2008 compared with $6.2 billion at December 31, 2007. Net sales for the year ended December 31, 2008 were positive at $95 million, but market values declined by $1.9 billion resulting in the net $1.8 billion decrease in AUM for the year. Monthly average AUM for the year ended December 31, 2008 was $6.3 billion compared with $5.2 billion in 2007.

Revenues for 2008 totaled $165.8 million, a decrease of $61.9 million or 27.2% compared to the prior year. Performance fees decreased by $81.2 million or 62.9%, accounting for most of the overall decrease in total revenue, which was partially offset by an increase in Management Fees, which were up by 14.8%.

Expenses totaled $86.5 million for the year ended December 31, 2008, which is a decrease of $88.7 million or 50.6% as compared with 2007. The decrease is mainly attributable to a decrease in compensation and benefits (see "Compensation and Benefits" section below) of $94.7 million as a result of higher compensation payments in 2007, as well as a change in the bonus compensation arrangements made in 2008.

Net income of $52.1 million for the year ended December 31, 2008 compares with net income of $42.3 million in 2007. Lower compensation costs and higher Management Fees in 2008 offset the decrease in Performance Fees, leading to higher 2008 Net Income.

Assets Under Management

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

$ millions	Year ended December 31, 2008	Year ended December 31, 2007
AUM, beginning of year	6,215	4,239
Net sales	95	1,350
Market value appreciation (depreciation) of portfolios	(1,861)	626
AUM, end of year	4,449	6,215

Revenue

Total revenues decreased by $61.9 million or 27.2% from $227.6 million in 2007 to $165.8 million in 2008.

Management fees increased by $16.0 million or 14.8% from $108.0 in 2007 to $124.0 million in 2008, as monthly average AUM increased by approximately 22% over the same period. Management Fee margins (defined as Management Fees as a percentage of AUM) remained fairly constant at 2%. The 2% annual average in 2008 was comprised of higher Management Fee margins in the earlier part of the year, trending downwards later in the year, as hedge funds, which charge lower Management Fees relative to mutual funds, grew as a percentage of total AUM.

Performance Fees for the year ended December 31, 2008 were $47.9 million as compared to $129.2 million for the prior year. In 2007, most of our hedge funds and mutual funds generated Performance Fees. In 2008, the global economic crisis created a challenging investing environment and led to a significant decrease in such fees. Of the total 2008 Performance Fees, $35.6 million was earned by Sprott Consulting LP from its management of Sprott Resource Corp. ("SRC"), with the remainder generated primarily by our domestic and offshore hedge funds. SRC realized a significant profit from the sale during the year of its stake in PBS Coals Inc. Sprott Consulting LP is entitled to receive an incentive fee for its management of SRC based on SRC's annual profitability above a specified hurdle.

Losses from proprietary investments totaled $11.7 million for the year ended December 31, 2008 as compared with losses of $4.2 million in 2007. 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 ("Sprott Moly") that, on a mark-to-market basis, resulted in a loss from investments for the year.

An impairment charge on long-term investments of $7.5 million 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 December 31, 2007. Investments in oil and gas properties were not publicly traded and were measured at cost less any impairment. The

impairment charge was based on valuation comparisons to recent publicly disclosed arms length market transactions in similar oil and gas properties.

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 201.5% to $4.6 million for the year ended December 31, 2008 compared with 2007. This increase is mainly due to early redemption fees and foreign exchange gains. Early redemption fees increased by 110.9% to $2.4 million in 2008 as compared to the prior year due to a higher number of investors holding our domestic Funds for a period of less than six months. In 2008 the Company had net foreign exchange gains of $1.5 million on U.S. dollar cash and fees receivable resulting from the strengthening of the U.S. dollar against the Canadian dollar.

Expenses

Total expenses for the year ended December 31, 2008 were $86.5 million, a decrease of $88.7 million, or 50.6%, compared with $175.2 million for 2007. The decrease is mainly attributable to a decrease in compensation and benefits of $94.7 million, as a result of higher compensation payments in 2007, as well as a change in the bonus compensation arrangements made in 2008.

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 bonuses based on Company performance and individual contribution. All remaining pre-tax net earnings, including Performance Fees, could be paid to employees and shareholders. Given the substantial Performance Fees received for 2007, significant bonus and shareholder payments were made to employees and shareholders.

For 2008, our employee bonus pool is comprised of two components:

- 25% of Management Fees less operating expenses (operating expenses include all expenses except for bonuses under the employee bonus pool, amortization, interest and income taxes); and
- 25% of Performance Fees earned for the year.

Compensation and benefits expense for the year ended December 31, 2008 amounted to $46.8 million, including contributions to the discretionary employee bonus pool of $28.7 million. The same expense category for the year ended December 31, 2007 was $141.5 million. The decrease in compensation and benefits of $94.7 million or 66.9%, reflects lower bonuses but increased base compensation due to increased headcount, including several investment professionals who joined SAM either during 2007 or in early 2008. As discussed above, since we are now a public company, no compensation-related payments to shareholders were made in 2008. Compensation costs also include stock option benefit costs that are higher as the fair value at the time of grant of the stock options in the Company has increased since going public.

Trailer Fees

Trailer fees are correlated with AUM and Management Fees. For the year ended December 31, 2008 trailer fees of $26.5 million were 8.5% higher than in 2007. Trailer fees as a percentage of Management Fees for the year ended December 31, 2008 have decreased slightly to 21.4% from 22.6% in 2007. 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 $4.1 million, or 60.5%, to $11.0 million for the year to December 31, 2008 as compared with 2007. Higher occupancy costs as a result of leasing additional office space in November 2007, legal and other professional fees, higher regulatory and licensing fees and sales and marketing costs were the main contributors to the increase.

We intend to effect a restructuring of our subsidiaries, effective in the first half of 2009, 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 will also create tax efficiencies for the Company. The intended restructuring is subject to obtaining all necessary regulatory approvals. We are working with our

legal and tax advisors to finalize and 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 which became effective in fiscal 2008. Under this program, the amount of charitable donations made each year is 1.0% of the previous year's net income, as may be adjusted from time to time based on profitability, cash flow and other similar measures. In addition to donations under the program that are directed specifically to children's charities, we make other corporate donations to selected causes. There was no corresponding program in 2007 although substantial corporate donations were made.

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. Though SAM spent $1.3 million in additions to the fixed assets, amortization expense for 2008 increased by only $61 thousand compared to amortization expense for 2007. The primary reason for this slight increase is the reversal of accumulated amortization on artwork.

EBITDA, Base EBITDA and Net Income

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

EBITDA allows us to assess our ongoing business without the impact of interest expense, income taxes and certain non-cash expenses, such as amortization and stock based compensation. EBITDA is an indicator of our ability to pay dividends, invest in our business and continue operations. For the year ended December 31, 2008, EBITDA was $81.3 million compared with $54.2 million for the year ended December 31, 2007. Net income of $52.1 million in 2008 is $9.9 million higher than in 2007 but the provision for income taxes in 2008 is $17 million higher than in 2007, resulting in EBITDA being $27.1 million higher in 2008 than in 2007. For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table contained elsewhere in this MD&A.

Base EBITDA, as defined elsewhere in this MD&A, allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as income or loss relating to investments in certain proprietary investments. For the year ended December 31, 2008 Base EBITDA was $57.1 million as compared with $49.3 million in 2007, representing an increase of 15.7%. While net losses on proprietary investments and impairment of long-term investments were, in aggregate, similar in magnitude in 2008 and 2007, the impact of performance fees net of related bonuses (adjusted for 2007 to reflect compensation expense as if the current bonus compensation arrangements had been in place in the prior year) was larger in 2008 than in 2007, resulting in Base EBITDA for the year ended December 31, 2008 being $7.7 million higher than for the year ended December 31, 2007.

Income before taxes was $79.2 million for the year to December 31, 2008 compared with a pre-tax net income of $52.4 million for the year ended December 31, 2007.

Net income for the year ended December 31, 2008 was $52.1 million as compared to a net income of $42.3 million for the corresponding period in 2007.

Balance Sheet

Total assets at December 31, 2008 of $123.4 million are $157.4 million less than at December 31, 2007. In anticipation of the Offering, SAM paid dividends to SAM shareholders totaling approximately $134.6 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-in-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 from December 31, 2007 to December 31, 2008.

Fees receivable is lower in 2008 as compared to 2007 due to the lower annual performance fees revenue earned in 2008 as well as earlier collection of certain performance fees. Compensation and bonuses payable for 2008 are significantly lower than for 2007 as discussed under "Compensation and Benefits".

Dividends

In February 2009, a dividend of $0.025 per common share was declared for the quarter ended December 31, 2008.

In addition, in March of 2009, the Company's Board of Directors declared a special dividend of $0.15 per common share following receipt of Performance Fees for the year ended December 31, 2008.

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 27.5042984 basis. The Company issued an aggregate of 150,000,000 common shares to the shareholders of SAM.

Earnings per share as at December 31, 2008 and December 31, 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 since the IPO.

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

Summary of Quarterly Results and Fourth Quarter 2008

$ in thousands, except per share amounts	3 Months ending 31-Mar-08	3 Months ending 30-Jun-08	3 Months ending 30-Sep-08	3 Months ending 31-Dec-08	3 Months ending 31-Mar-07	3 Months ending 30-Jun-07	3 Months ending 30-Sep-07	3 Months ending 31-Dec-07
Assets Under Management*	6,504,828	7,123,335	6,704,368	4,830,013	4,380,416	5,035,406	5,246,043	5,942,015
Income Statement Information								
Revenue								
Management fees	32,763	36,627	32,860	21,720	22,548	26,560	27,664	31,248
Performance fees	305	3,991	1,258	42,368	34	312	1,116	127,696
Unrealized and realized gain (loss) on proprietary investments	8,151	(2,754)	(9,706)	(7,413)	4,057	(10,620)	(888)	3,211
Dilution loss related to Sprott Molybdenum Participation Corporation					11,808	(11,808)		
Impairment of long term assets						(1,138)	(6,400)	71
Other income	1,620	1,441	721	806	189	373	32	928
Interest income	291	193	294	221	419	8	73	128
Total revenue	43,130	39,498	25,427	57,702	39,055	3,687	21,597	163,282
Expenses								
Compensation and benefits	8,518	11,282	9,513	17,510	4,642	5,888	3,992	126,967
Trailer fees	7,108	7,948	7,022	4,413	5,228	6,132	6,143	6,912
Other	2,495	3,384	3,296	4,056	1,471	2,031	1,950	3,884
Total Expenses	18,121	22,614	19,831	25,979	11,341	14,051	12,085	137,763
Income (loss) before income taxes	25,009	16,884	5,596	31,723	27,714	(10,364)	9,512	25,519
Provision for (recovery of) income taxes	8,298	5,495	1,927	11,356	8,926	(2,687)	5,989	(2,129)
Net Income	16,711	11,389	3,669	20,367	18,788	(7,677)	3,523	27,648
EBITDA	24,949	17,433	6,439	32,489	27,892	(9,415)	9,980	25,722
Base EBITDA	16,570	17,194	15,202	8,125	10,375	12,413	13,662	12,898
Basic and diluted earnings per share	0.12	0.08	0.02	0.14	0.14	(0.06)	0.03	0.21

* Average of month-end AUM.

As discussed under "Metrics of Our Business" above, Performance Fees for most of our Funds and Managed Accounts are determined as of December 31 each year. Through the first three quarters of the year, Performance Fees reported in the Company's financial statements reflect Crystallized Performance Fees and Performance Fees earned on the Sprott Global Market Neutral Fund, if any. To the extent that we earn Performance Fees on any of the other Funds and Managed Accounts, these are reflected in the fourth quarter. Performance Fee related bonus of 25% of Performance Fees is recorded in the quarter when such fees are earned, which results in an increase of the Employee Bonus Pool recorded in the fourth quarter of each year.

Performance Fees totaling $42.4 million were recorded at December 31, 2008. Of the total, $35.6 million was generated by Sprott Consulting L.P. through its management of Sprott Resource Corp. ("SRC"). SRC realized a significant profit from the sale during the year of its stake in PBS Coals Inc. Sprott Consulting L.P. is entitled to receive an incentive fee for its management of SRC based on SRC's annual profitability above a specified hurdle.

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

The fourth quarter of 2008 saw AUM declining by $1.2 billion from $5.6 billion at September 30, 2008 to $4.4 billion at December 31, 2008. The decrease reflected a combination of net redemptions of $0.6 billion and net market value depreciation of the Funds and Managed Accounts of $0.6 billion. A substantial portion of our offshore feeder funds is owned by institutional investors and may be included in fund-of-fund structures, making offshore hedge funds more susceptible to redemptions as these types of investors were forced to or chose to liquidate their fund holdings as part of a "deleveraging" or risk reduction process. As a result, the majority of our fourth quarter redemptions related to our offshore hedge funds. Net market value depreciation primarily related to our domestic "long only" mutual funds.

There were several changes to our investment product offerings.

At approximately US$12 million, Sprott Strategic Gold Master Fund Ltd. became too small to manage economically. As a result, this Fund was liquidated and its associated feeder Funds mandatorily redeemed as at December 31, 2008.

In January of 2009, the Board of Sprott Moly announced that, given recent developments in the molybdenum market and the fact that Sprott Moly's shares were trading at a significant discount to net asset value, substantially all assets of Sprott Moly would be distributed to its shareholders. The upcoming dissolution of Sprott Moly will not have a material impact on our operations, AUM or revenue stream.

Despite the difficult market environment, we continue to generate ideas for new investment products and introduced two new funds in early 2009. These funds are discussed in more detail under the "Outlook" section below. We remain confident in our long term investment views and continue our pursuit of investment opportunities.

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 and Procedures

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.

Disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR")
Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the Company and information required to be disclosed in our annual filings, interim filings and other reports filed under securities legislation, as well as the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

As of December 31, 2008 an evaluation was carried out, using the COSO[1] internal control framework, under the supervision of and with the participation of management, including the CEO and the CFO, of the effectiveness of our DC&P and our ICFR as defined under *National Instrument 52-109*. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these DC&P and ICFR were effective as of December 31, 2008. No material weaknesses relating to the design or operation of the DC&P or the ICFR were identified based on the evaluation referred to above.

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

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 as well insurance coverage required by regulation. We review our insurance coverage at least monthly to ensure continued adequacy.

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

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

basis, with consideration given to the objective, strategy, restriction, portfolio composition and cash availability of each Fund and Managed Account.

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; rapid growth or decline in our AUM; 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.

Liquidity and Capital Resources

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

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

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 year ended December 31, 2008, SAM was in compliance with the capital requirements of IIROC and in compliance with the covenants under the credit facility. No amount was drawn under the credit facility at December 31, 2008.

Our operating activities have enabled us to generate positive cash flows from which our Board of Directors have declared quarterly dividends and a special year end dividend.

Critical Accounting Estimates

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

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

Stock-based compensation expense is estimated based on the value of the option on its grant date. Management adopted a fair value-based valuation methodology as required by GAAP that will best determine the value of options and the cost over the vesting period of the option. The valuation model utilizes multiple observable market inputs including interest rates, however the model requires judgment and assumptions be applied in determining certain inputs including fair value of common shares, expected volatility and expected option life. Management reviews all inputs on a regular basis to ensure consistency of application and reasonableness. Details regarding stock options granted, including key inputs and assumptions are contained in note 6(b) to the Company's audited consolidated financial statements.

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

Financial Instruments

Our financial instruments consist of cash and cash equivalents, proprietary investments, fees receivable, accounts payable and accrued liabilities and compensation payable. In all cases, the carrying values approximate the relevant fair values due to their short-term nature. Proprietary investments are 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 year ended December 31, 2008, the following related party transactions occurred:

Most of 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 year ended December 31, 2008 amounted to approximately $8 million. Fair market value was determined by reference to publicly available price quotations and, for investments in private equities, by reference to recent arm's length transactions in the stock.

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 has not had any material effect on our results of operations, financial position or cash flows.

Future accounting changes

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has now confirmed that the use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended December 31, 2011 and will be required to provide information that conforms with IFRS for the comparative periods presented. The Company is currently evaluating the impact of adopting IFRS. We have engaged a major accounting firm to assist with the diagnostic review. The primary objective of the diagnostic review in the planning phase of the IFRS conversion project is to understand, identify and assess the overall effort required to produce financial information under IFRS.

Outlook

The second half of 2008, and in particular the fourth quarter, has been particularly difficult for most investment managers and we have not been immune from the issues that engulfed the investment management industry. Even though most of our "long only" Funds suffered significant negative returns, most of our hedge funds enabled us to survive and prosper in a secular bear market, profiting from the short side of their portfolios and generating positive returns for the year. In anticipation of the economic crisis, we made defensive positioning of our Funds a priority, allowing them to better withstand a prolonged market downturn. Many of our portfolios continue to hold above average levels of cash as well as significant long positions in gold and silver bullion. We remain dedicated to our pursuit of generating new ideas, seeking out investment opportunities and continuing to offer innovative investment products.

We anticipated that the financial system would be in dire straits due to a proliferation of assets of dubious value, overleveraging and a proliferation of derivatives that carried with them significant counterparty risk. In March of 2007, 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 latter half of 2008 we experienced the unwinding of the lending and credit bubble that led to wealth destruction in almost all financial assets and has morphed into a full-blown global economic crisis. 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. A number of other 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 managed and continue to manage the appropriate level of liquidity in all our Funds through a daily analysis and monitoring of portfolio composition.

Virtually all of our Funds and Managed Accounts have a Performance Fee component and our ability to generate Performance Fees is fundamental to our ability to produce value for the investors in our Funds and for our shareholders. For most of our Funds and Managed Accounts, any performance deficit, which occurs when a Fund's investment performance does not exceed the specified benchmark or threshold, must first be earned back before performance fees on that Fund or Managed Account are generated. Except for the Sprott Hedge Fund LP that has a 10% hurdle rate with a one-year deficit carry forward, all deficits continue until they are eliminated on a cumulative basis. At December 31, 2008 Funds accounting for 28% of total Funds' AUM (excluding Managed Accounts) earned performance fees and therefore had no deficit to carry forward; Funds totaling a further 31% of our AUM had small deficits to carry forward and mutual funds accounting for 30% of total Funds' AUM were within 10% of their performance fee benchmarks. Given these metrics and encouraged by our Fund performance in early 2009, we believe that the Company is well positioned to generate Performance Fees in 2009 and beyond.

At the end of 2008, the Company remains financially strong and, we believe, well positioned for continued success. Our cost structure ensures that the largest expenses, compensation and trailer fees, are correlated with revenues while fixed costs comprise a relatively low percentage of total revenues. Such a structure ensures that we are not dependent on outside financing and are able to generate positive cash flows to fund operations and pay dividends. It also provides a solid platform for growth.

The past year has been a trying one, due to a widespread economic crisis complicated by hedge fund scandals and closures of funds and fund companies. As a regulated asset manager, we have always been mindful of counterparty risk, the potentially destructive effects of excessive leverage and the importance of a strong compliance culture. We continue to build on this strong foundation, with ongoing due diligence and risk assessment that have become engrained in the core of our operations.

The current global economic crisis is unprecedented in scale and scope, making investment analysis unusually challenging. However, our investment track record, experienced investment professionals and innovative approach have successfully navigated our Funds and Managed Accounts through volatile markets before and, we believe, will do so again. SAM was founded on the knowledge, commitment and experience of top investment professionals who take a consistent, disciplined approach to investing, based on sound fundamental analysis and independent research. Heading into 2009, we continue to build on our belief in precious metals as a safe haven in times of economic turmoil and our range of Fund products offer rewarding investment opportunities through these difficult markets.

Key Growth Initiatives

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

Investment team

Within the last three years, we have hired five award-winning portfolio managers with different areas of expertise. These latest additions to our talented investment team resulted in increased capacity and diversity to manage more money and launch new funds.

Increase sales and marketing efforts

Our internal sales force is an integral part of the Company's strategic vision. The development of our wholesaler platform and broker division creates an opportunity for growth and the ultimate goal is expansion of the Sprott brand both domestically and in the international arena. We believe we remain well positioned to attract and retain clients, continually grow our client base and to provide superior client service.

Introduce new products

We continue to introduce novel investment products in response to changing investor sentiment and evolving investments themes. In March 2009, we launched the Sprott Gold Bullion Fund. This Fund primarily invests in unencumbered gold bullion and permitted gold certificates and offers investors an alternative way to hold gold for long-term appreciation and portfolio diversification. We also introduced the FNSSC[2] Multi-Manager Fund, a Fund composed of five Sprott mutual funds, which will be exclusively available to FNSSC members. We will work alongside FNSSC and expect to publicly launch this Fund in the first half of 2009.

Opportunity to manage corporate assets through Sprott Consulting LP

Through Sprott Consulting LP ("SCLP"), we have introduced into our business operations the concept of providing management and administrative services to public companies. Currently, SCLP manages Sprott Resources Corporation (TSX:SRC), which invests in early stage corporate investments in the resource sector. Sprott Consulting LP has proven to be a valuable addition to our business, generating significant Performance Fees in 2008 and is positioned to be an avenue for revenue growth and business expansion.

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

2 Federation of National Specialty Societies of Canada.

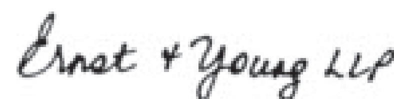
Auditors' Report

To the Shareholders of
Sprott Inc.

We have audited the consolidated balance sheets of **Sprott Inc.** as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada,
March 6, 2009

Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ in thousands)	2008 $	2007 $
Assets		
Current		
Cash and cash equivalents	89,888	94,293
Proprietary investments, held for trading (*Notes 2 and 4*)	13,008	97,310
Proprietary investments, available for sale (*Notes 2 and 4*)	–	3,281
Proprietary investments, precious metal bullion (*Notes 2 and 4*)	–	16,792
Fees receivable	13,557	54,912
Other assets	800	338
Total current assets	117,253	266,926
Future income tax asset (*Note 11*)	1,481	–
Long-term investments (*Notes 2 and 5*)	–	9,998
Fixed assets, net (*Note 8*)	4,696	3,949
	6,177	13,947
Total assets	123,430	280,873
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	5,625	7,371
Compensation and employee bonuses payable	21,811	124,075
Income taxes payable (*Note 11*)	16,480	9,119
Total current liabilities	43,916	140,565
Future income tax liability (*Note 11*)	–	2,220
Total liabilities	43,916	142,785
Shareholders' equity		
Capital stock (*Note 6(a)*)	40,105	14,802
Contributed surplus (*Note 6(a)*)	1,524	113
Retained earnings	37,885	123,173
Total shareholders' equity	79,514	138,088
Total liabilities and shareholders' equity	123,430	280,873

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

For the years ended December 31 ($ in thousands, except for per share amounts)	2008 $	2007 $
Revenue		
Management fees	123,970	108,020
Performance fees	47,922	129,158
Unrealized and realized losses on proprietary investments	(11,722)	(4,240)
Impairment charge on long-term investments (*Note 5*)	–	(7,467)
Other income	4,588	1,522
Interest income	999	628
	165,757	227,621
Expenses		
Compensation and benefits	46,823	141,489
Trailer fees	26,491	24,415
General and administrative	11,006	6,858
Donations	1,651	822
Amortization	574	513
Interest expense	–	1,143
Total expenses	86,545	175,240
Income before income taxes	79,212	52,381
Provision for income taxes (*Note 11*)	27,076	10,099
Net income and comprehensive income	52,136	42,282
Retained earnings, beginning of the year	123,173	102,807
Dividends distributed	(142,150)	(19,196)
Refundable dividend tax	–	(4,726)
Dividend tax refund	4,726	2,619
Premium paid on acquisition of common shares (*Note 6(a)*)	–	(613)
Retained earnings, end of year	37,885	123,173
Basic and diluted earnings per common share (*Note 10*)	$ 0.36	$ 0.32

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in thousands)	2008 $	2007 $
Operating Activities		
Net income and comprehensive income for the year	52,136	42,282
Add (deduct) non-cash items:		
Stock-based compensation	1,524	142
Amortization	574	513
Impairment charge on long-term investments	–	7,467
Future income taxes	(3,701)	2,220
	50,533	52,624
Changes in non-cash working capital balances related to operations:		
Proprietary investments	–	(25,317)
Fees receivable	41,355	(30,260)
Other assets	(462)	(93)
Accounts payable and accrued liabilities	(1,746)	(2,503)
Compensation and employee bonuses payable	(102,265)	33,776
Income taxes payable	7,361	11,225
Cash provided by operating activities	(5,224)	39,452
Investing Activities		
Proprietary investments	104,375	–
Purchase of fixed assets	(1,321)	(1,300)
Long-term investments	(151)	(595)
Loan extended to Sprott Molybdenum Participation Corporation	–	(6,792)
Loan repayment by Sprott Molybdenum Participation Corporation	–	11,252
Cash provided by (used in) investing activities	102,903	2,565
Financing Activities		
Issuance of common shares (*Note 6*)	25,190	2,652
Repurchase and cancellation of common shares (*Note 6*)	–	(691)
Dividend tax refund	4,726	2,619
Refundable dividend taxes recoverable		(4,726)
Subordinated loan received (*Note 7*)	–	12,000
Repayment of subordinated loan (*Note 7*)	–	(8,989)
Dividends paid	(132,000)	(19,196)
Cash used in financing activities	(102,084)	(16,331)
Net increase (decrease) in cash and cash equivalents during the year	(4,405)	25,686
Cash and cash equivalents, beginning of the year	94,293	68,607
Cash and cash equivalents, end of year	89,888	94,293
Cash and cash equivalents:		
Cash	28,192	1,470
Cash at carrying broker	5,232	92,823
Short-term investments	56,464	–
	89,888	94,293
Supplemental cash flow information		
Income taxes paid (received)	18,555	(598)
Interest paid	–	1,143

See accompanying notes

Note 1. Corporate Activities

Sprott Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("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 million common shares to be effected via a secondary offering by certain shareholders of the Company (the "Offering" or "IPO"). Common shares of the Company are traded on the Toronto Stock Exchange under the symbol SII.

Note 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

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 at December 31, 2008 and 2007.

Total proceeds from the sale of proprietary investments prior to completion of the Offering 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 Notes 2(b) and 5). All such payments were made prior to the IPO. All subsequent dividends paid after the completion of the IPO are not related to the Reorganization.

(d) Option grants and exercise by option holders

As a result of the Reorganization, certain amendments were made to SAM's 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.

Note 3. Significant Accounting Policies

Basis of presentation
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

For the purposes of these consolidated financial statements, the acquisition of SAM in the fiscal year ended December 31, 2008 has been accounted for using the continuity of interest method because the acquisition did not result in a substantive change in the owners' interests, but was only a re-arrangement of legal interests. Under this method, financial statements of the combined company presented for prior periods are restated to reflect the financial position and results of operations as if the companies had been combined since their inception.

These 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 and limited partnerships: SAM, Sprott Genpar Ltd. SAMGENPAR Ltd., Sprott Consulting LP, Sprott Asset Management LP and Sprott Private Wealth LP.

Use of estimates
The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting 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.

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

instruments classified as available for sale include investments in private companies.

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

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 are 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 value determined by reference to published price quotations, with unrealized and realized gains and losses recorded in income.

Long-term investments

Long-term investments consisted of non-publicly traded oil and gas properties and were 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 55% per annum. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease. The artwork is not amortized since it does not have a determinable useful life.

Earnings per share

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

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

Foreign currency translation

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

Income taxes

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

Stock-based compensation

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

Variable interest entities

Hedge funds set up as limited partnerships, public mutual funds and offshore funds managed by SAM qualify as variable

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

Adoption of new accounting standards

On January 1, 2008, the Company adopted the following new 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 – disclosures and presentation

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 year and at the consolidated balance sheet dates, 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, was adopted by the Company at that time and did not have a material impact on the financial statements.

International Financial Reporting Standards ("IFRS")

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

Note 4. Proprietary Investments

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

	December 31, 2008 $	December 31, 2007 $
Precious metal bullion		
Gold coins and bullion	–	9,386
Silver bullion	–	7,406
	–	16,792
Securities designated as held for trading		
Gold certificates	–	16,857
Silver certificates	–	14,585
Public equities	5,050	26,348
Mutual funds and hedge funds	7,958	39,520
	13,008	97,310
Securities available for sale		
Private equities	–	3,281
Total proprietary investments	13,008	117,383

As at December 31, 2008, investments in public equities consist of an investment in Sprott Molybdenum Participation Corporation ("Sprott Moly"). For further information, refer

to Note 7(a). As at December 31, 2008, investments in mutual funds and hedge funds consist entirely of investments in mutual funds and hedge funds managed by SAM.

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.

Note 5. Long-Term Investments

Long-term investments at December 31, 2007 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 $7.5 million was recorded based on valuation comparisons to recent publicly disclosed arm's-length market transactions in similar oil and gas properties.

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.

Note 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 $ (in thousands)
Authorized			
Unlimited common shares, without par value			
Issued			
Balance, December 31, 2006	4,787,881	131,687,307	**12,050**
Issuance of common shares on exercise of stock options	92,276	2,537,987	**2,829**
Repurchase and cancellation of common shares from departing employees	(27,681)	(761,346)	**(77)**
Balance, December 31, 2007	4,852,476	133,463,948	**14,802**
Issuance of common shares on exercise of stock options	601,217	16,536,052	**25,303**
Balance, December 31, 2008	**5,453,693**	**150,000,000**	**40,105**

During 2007, SAM repurchased 27,681 (761,346 using the IPO conversion factor) common shares for total proceeds of $0.7 million. The excess of the proceeds over the average stated capital in the amount of $0.6 million was charged to retained earnings in 2007.

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

	Stated value $ (in thousands)
Balance, December 31, 2006	149
Expensing of fair value of 50,000 SAM stock options over the vesting period	142
Exercise of 92,276 SAM stock options	(178)
Balance, December 31, 2007	113
Exercise of 601,217 SAM stock options	(113)
Contributed surplus related to SAM stock options immediately prior the completion of the IPO	–
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	1,524
Balance, December 31, 2008	1,524

(b) Stock option plans and IPO conversion

(i) SAM

In 2007, 253,870 SAM options were granted, with exercise prices ranging from $25.21 to $78.30 and fair values ranging from zero to $2.83. The fair value of the options granted in 2007 was determined using a weighted average risk-free rate of 3.84% to 4.28%, an expected life of three to ten years, weighted average expected volatility of 0% and no expected dividends. During 2007, the Company recorded a compensation expense of $141,525, with a corresponding increase to contributed surplus.

In 2007, a total of 92,276 options were exercised, with exercise prices ranging from $22.32 to $49.04, for total proceeds of $2.6 million. As a result of these transactions, $0.2 million previously recorded in contributed surplus was transferred to capital stock.

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. By resolution of the Board of Directors of the Company in April 2008, exercise prices were amended as follows: (i) from $48.3715 to $17.41 for 185,953 options granted in January 2006; (ii) from $76.9335 to $45.98 for 120,550 options granted in August 2007; (iii) from $78.30 to $47.34 for 33,966 options granted in November 2007 and (iv) from $81.39 to $64.00 for 109,128 options granted in March 2008. The revaluation of stock options did not result in an increase in their fair value.

During the fiscal year ended December 31, 2008, a total of 601,217 SAM options were exercised for proceeds of $25.2 million; as a result of the exercise, $0.1 million previously recorded in contributed surplus was credited to capital stock.

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 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% to 3.27%, an expected life of five years, weighted average expected volatility of 28% and an expected dividend yield of 1%.

During the year ended December 31, 2008, the Company recorded a compensation expense of $1.5 million with a corresponding increase to contributed surplus, with respect to these options.

(c) Objectives of managing capital

The Company's objectives when managing capital are:

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

The Company's capital is comprised of equity, including capital stock, contributed surplus and retained earnings. The Company's wholly-owned subsidiary, SAM, is a registrant of IIROC and is therefore required to maintain a minimum level of regulatory capital. To ensure compliance, senior management of SAM monitors regulatory capital on a daily basis. SAM also has a credit facility from a major Canadian chartered bank. One of the covenants related to this facility requires SAM to maintain minimum tangible net worth of $40 million (see Note 9(b)). As at December 31, 2008, SAM's tangible net worth, as defined in the agreement, is approximately $79 million.

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

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

Note 7. Related Party Transactions

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

During 2007, 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. During fiscal 2007, the Company received underwriting commissions of $0.4 million relating to the initial public offering of Sprott Moly.

As at December 31, 2008, the Company owns approximately 10.08% (2007 – 9.17%) 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 fiscal year ended December 31, 2008, SAM incurred an expense of $1 million (2007 – $0.6 million), in artwork rental fees to Mr. Sprott and Sprott Securities Ltd. No amount remained payable as at December 31, 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 year ended December 31, 2008 amounted to approximately $8 million. Fair market value was determined by reference to publicly available price quotations and, for investments in private equities, by reference to recent arm's-length transactions in the stock.

(d) 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. The subordinated loan was repaid in full in 2007. Of the $46 million, approximately $37 million was repaid with precious metal bullion and the remainder was repaid in cash. SAM paid Mr. Sprott interest at an annual rate equal to the Bank of Canada target overnight rate, on the unpaid balance, compounded annually and payable monthly. Total interest paid to Mr. Sprott in 2007 amounted to $1 million. All subordinated loans had no established maturity dates and repayments were subject to the approval of IIROC.

Note 8. Fixed Assets

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

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

	December 31, 2007		
	Cost $	Accumulated amortization $	Net book value $
Artwork	1,453	200	1,254
Furniture and equipment	1,243	533	710
Computer hardware and software	686	529	157
Leasehold improvements	2,244	416	1,828
	5,626	1,678	3,949

Note 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:

	$ (in thousands)
2009	1,555
2010	1,555
2011	1,555
2012	1,555
2013	1,555
	7,775

(b) Credit facility

SAM has a credit facility provided by a major Canadian chartered bank for a maximum of $35 million. 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. 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;

(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 December 31, 2008, there were no funds drawn under this credit facility.

Note 10. Earnings per Share

For the year ended December 31, 2008, basic and diluted earnings per common share was $0.36. For the year ended December 31, 2007, basic and diluted earnings per common share was $0.32 ($8.73 pre-conversion).

Note 11. Income Taxes

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

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

	Year ended December 31, 2007 $ (in thousands)
Income taxes at statutory tax rate (36.12%)	18,920
Increase (decrease) in income taxes resulting from:	
Non-taxable portion of capital gains	(7,269)
Non-taxable portion of foreign affiliate income	(1,911)
Non deductible write-down of long term assets	2,697
Tax rate differential in subsidiary	(2,206)
Rate differences and other	(132)
Income tax provision as reported (effective tax rate of 19.28%)	10,099

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

	2008 $	2007 $
Current income tax expense	30,777	7,879
Future income tax expense (recovery)	(3,701)	2,220
Provision for income taxes	27,076	10,099

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

	2008 $	2007 $
Foreign accrual property losses and capital losses	1,200	
Non-capital losses	281	
Unrealized capital gains	–	(2,220)
Future income tax asset (liability)	1,481	(2,220)

As at December 31, 2008, the Company has approximately $7.2 million of unused capital losses realized on the disposition of a subsidiary by means of a dividend-in-kind. For further details on the assets disposed of, refer to Notes 2(c) and 5.

Note 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 lacks the characteristics of a controlling financial interest. The Company has a direct investment in several such offshore funds, and in certain public mutual funds. Management has concluded that the Company is not the primary beneficiary of these funds and, thus, is not required to consolidate these entities. The Company has no other significant interests in VIEs. The Company's maximum exposure to loss as a result of its involvement with VIEs is a function of the amounts invested in the funds, management fees and performance fees.

Note 13. Risk Management Activities

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

(a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. As many of the Company's financial instruments are recognized at fair value and classified as held for trading or net recoverable amount with impairment, if any, 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 daily monitoring of its proprietary investments.

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

Price risk

Price risk arises from the possibility that changes in the price of the Company's investments will result in changes in carrying value. For a listing of the Company's proprietary investments, refer to Note 4. As at December 31, 2008, investments in funds and managed accounts managed by SAM, amounted to $13.0 million or 10.7% 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 $0.4 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 issued by the Government of Canada with maturities of less than three months.

Foreign exchange risk

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

As at December 31, 2008, approximately $3.8 million or 3.1% of total assets was invested in proprietary investments priced in U.S. dollars ("USD"). Furthermore, a total of $0.8 million of cash, $2.6 million of accounts receivable and $0.3 million of other assets were denominated in USD. As at December 31, 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 have amounted to approximately $0.3 million.

(b) Credit risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2008 and 2007, the Company's most significant counterparty is Cormark, the carrying broker of SAM, which also acts as a custodian on most of the Company's proprietary investments. Cormark is registered as an investment dealer subject to regulation by the IIROC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

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 and managed accounts managed by the Company.

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. The current assets reflected on the consolidated balance sheets are highly liquid. The majority of investments held by the Company are readily marketable and are recorded at their market value. Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within several months. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis and maintaining a credit facility (see Note 9(b)).

Note 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.

Note 15. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the current year's presentation. The retained earnings as of January 1, 2007 have been adjusted by $1.5 million to reflect an adjustment with respect to payroll accounting recorded in the preparation of the 2008 quarterly financial statements that is considered immaterial to these financial statements. Furthermore, during the year, there was a change in strategy with respect to the proprietary investments portfolio such that on the statement of cash flows it was classified as operating in 2007 and investing in 2008.

Note 16. Subsequent Event

In February 2009, a dividend of $0.025 per common share was declared for the quarter ended December 31, 2008.

In addition, in March 2009, the Company's Board of Directors declared a special dividend of $0.15 per common share following receipt of performance fees for the year ended December 31, 2008.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

For the three months ended ($ in thousands)	December 31, 2008 $	December 31, 2007 $
Revenue		
Management fees	21,720	31,248
Performance fees	42,368	127,696
Unrealized and realized losses on proprietary investments	(7,413)	3,211
Impairment charge on long-term investments	–	71
Other income	806	928
Interest income	221	128
	57,702	163,282
Expenses		
Compensation and benefits	17,510	126,967
Trailer fees	4,413	6,912
General and administrative	3,209	3,043
Donations	655	779
Amortization	192	(57)
Interest expense	–	119
Total expenses	25,979	137,763
Income before income taxes for the period	31,723	25,519
Provision for income taxes	11,356	(2,129)
Net income and comprehensive income for the period	20,367	27,648
Retained earnings, beginning of the period	21,268	105,488
Dividends paid	(3,750)	(7,856)
Dividend tax refund	–	(4,726)
Dividend refund	–	2,619
Premium paid on acquisition of common shares	–	–
Retained earnings, end of the period	37,885	123,173
Basic and diluted earnings per share	$0.14	$0.21

See accompanying notes

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

For the three months ended ($ in thousands)	December 31, 2008 $	December 31, 2007 $
Operating Activities		
Net income and comprehensive income for the period	20,367	27,648
Add (deduct) non-cash items:		
Stock-based compensation	574	142
Amortization	192	(57)
Impairment charge on long-term investments	–	(72)
Future income taxes	(3,434)	2,220
	17,699	29,881
Change in non-cash working capital related to operations:		
Proprietary investments	–	(5,194)
Fees receivable	(8,298)	(51,401)
Other assets	619	444
Accounts payable and accrued liabilities	1,181	4,044
Compensation and employee bonuses payable	10,146	122,035
Income taxes payable	13,561	(1,360)
Cash provided by operating activities	34,908	98,449
Investing Activities		
Proprietary investments	7,412	–
Purchase of fixed assets	(77)	(939)
Long-term investments	–	(4,385)
Loan extended to Sprott Molybdenum Participation Corporation	–	(6,792)
Loan repayment by Sprott Molybdenum Participation Corporation	–	11,252
Cash provided by (used in) investing activities	7,335	(864)
Financing Activities		
Issuance of common shares	–	87
Repurchase and cancellation of common shares	–	(77)
Dividend tax refund	–	2,619
Refundable dividend taxes recoverable	–	(4,726)
Repayment of subordinated loan	–	(4,989)
Dividends paid	(3,750)	(7,856)
Cash used in financing activities	(3,750)	(14,942)
Net increase (decrease) in cash and cash equivalents during the period	38,493	82,643
Cash and cash equivalents, beginning of the period	51,395	11,650
Cash and cash equivalents, end of the period	89,888	94,293
Cash and cash equivalents:		
Cash	28,192	1,470
Cash at carrying broker	5,232	92,823
Short-term deposits	56,464	–
	89,888	94,293
Supplemental cash flow information		
Taxes paid/(recovered)	1,210	–
Interest paid	–	196

See accompanying notes

CORPORATE INFORMATION

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Peter Hodson, Director
Allan Jacobs, Director
Mark McCain, Director
James T. Roddy, Director
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Stock Information

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

Annual Meeting

May 7, 2009 at 4:00 p.m. EDT
The Design Exchange
234 Bay Street
Toronto, Ontario M5K 1B2

This report was designed by the Equicom Group Inc., a division of the TMX Group Inc.

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