Sprott Inc.

Report to Shareholders

SEPTEMBER 30,

2009

Sprott INC.

November 3, 2009

Dear Shareholders,

Rising equity markets and superior stock selection by our investment managers combined to drive strong returns for most of our mutual funds in the third quarter. Some standouts include the Sprott Small Cap Equity Fund, run by the team of Allan Jacobs and Peter Imhof, which posted a return of more than 17% during the quarter, and the Sprott Growth Fund, managed by Peter Hodson, which was up 12% for the same period. The Sprott Energy Fund, which I manage, also returned more than 22% for the quarter.

As we have written on several occasions, we believe that the U.S. bailouts and stimulus spending have led to the printing of money and a weakening of investors' traditional safe haven – the U.S. dollar. As such, we continue to believe that gold and other precious metals will be the best store of value for investors over the longer term, in the face of a potential market correction. Gold began the third quarter at less than US $930 per ounce and ended the period at more than US $1,000 per ounce. Many mining stocks have also gained significantly, benefiting from the rise in precious metals. Several of our larger funds have significant investments in physical gold and silver, as well as mining stocks. So far this year, the merits of our gold and precious metals exposure have been demonstrated in the performance of the Sprott Gold and Precious Minerals Fund, which gained over 21% during the third quarter and gained over 77% for the first nine months of 2009.

The long side of a number of our hedge funds also saw strong returns from their investments in precious metals and mining-related stocks during the third quarter. However, the rise of North American stock markets constrained the short side of several of our hedge funds and offshore funds, leading to only modest quarterly gains or declines from a number of those funds.

Our Assets Under Management ("AUM") were $4.3 billion at the end of September 2009, down from $5.6 billion at the end of September 2008, and $4.4 billion at the end of June 2009. The change in AUM over the past 12 months is due to a decrease in the market values of portfolios and net redemptions.

Revenues for the third quarter of 2009 were $22.0 million, compared with $25.4 million last year, and net income was $5.5 million versus $3.7 million in the third quarter of 2008. Our variable cost structure ensures that our largest expenses are correlated with revenues, allowing us to continue to pay dividends to our shareholders and maintain a strong financial position, with a cash position of more than $40 million and no debt at quarter end.

As we discussed last quarter, effective June 1, 2009 we completed an internal reorganization and now operate through three businesses: Sprott Asset Management L.P., Sprott Private Wealth L.P., and Sprott Consulting L.P.. We are now focused on growing each of these businesses.

The creation of Sprott Private Wealth L.P. provides us with a unique distribution channel for our fund products, as well as a platform to separately brand and manage our private wealth business. We are actively developing strategies to capitalize on this opportunity and, as an initial step, recently began to offer selected external income products to our private clients.

Sprott Consulting L.P. allows us to capitalize on our expertise in certain investment sectors by providing administrative and management services to other companies, both private and public. This business has been a significant contributor to our results in the past, and provides another avenue for revenue growth and business expansion going forward. Currently, Sprott Consulting L.P. manages Sprott Resource Corp. (TSX: SCP), which invests in early-stage corporate investments in the resource sector. Sprott Resource Corp. has been very active of late and is currently involved in a number of potentially high-impact transactions that could benefit its shareholders. These activities, which include a share issuance, could ultimately also help to grow our revenues, by increasing Sprott Resource Corp.'s net asset value, on which Sprott Consulting L.P. generates management fees.

Subsequent to the end of the third quarter, we expanded the distribution of the FNSSC[1]-Multi Manager Fund from FNSSC members only to all eligible investors by way of offering various series of units; as a result of this change, after November 2, 2009 the fund's name changed to "Sprott Multi-Manager Fund". At the same time, we introduced a Low Load purchase option for investors in Series A units of our mutual funds. This purchase option provides both investors and our distribution channel with more investment alternatives.

As always, we remain focused on delivering superior performance in order to increase AUM and drive sales. We are confident that the strong investment track records and diverse investment philosophies of our group of talented portfolio managers and other investment professionals will translate into above average returns for our investors over the longer term. I look forward to providing further updates on our progress and growth initiatives in the coming quarters.

Eric Sprott
President and Chief Executive Officer

[1] Federation of National Specialty Societies of Canada

Management's Discussion & Analysis

This Management's Discussion & Analysis ("MD&A") of Financial Condition and Results of Operations presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of September 30, 2009 compared with December 31, 2008, and the results of operations for the three and nine month periods ended September 30, 2009 compared with the corresponding periods in 2008.

The Company was incorporated under the *Business Corporations Act* (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI"). On May 8, 2008, the Company filed a prospectus in each of the provinces and territories of Canada in respect of an initial public offering of 20,000,000 common shares to be effected via a secondary offering by certain shareholders of the Company ("the Offering").

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three and nine months ended September 30, 2009 and 2008 and the notes thereto and with the audited consolidated financial statements as at December 31, 2008 and for the year then ended, including the notes thereto and the related MD&A.

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") requiring estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of these statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates as a result of various factors. For the purposes of the unaudited interim consolidated financial statements, the acquisition of SAMI for the nine months ended September 30, 2008 has been accounted for using the continuity of interest 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.

On June 1, 2009 we completed a corporate reorganization of SAMI whereby SAMI was dissolved and its operations were separated into three business lines: discretionary portfolio management by Sprott Asset Management LP ("SAM LP"), broker-dealer services by Sprott Private Wealth LP ("SPW LP"), and consulting services by Sprott Consulting LP ("SCLP"). The reorganization had no impact on the consolidated financial statements. SAM LP is a portfolio manager ("PM") and exempt market dealer ("EMD"). SPW LP is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada ("IIROC"). SCLP provides management, administrative and consulting services to other companies. Currently SCLP provides these services to Sprott Resource Corp.

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 public mutual funds and hedge funds (the "Funds") and managed accounts ("Managed Accounts") less total liabilities, on which management fees ("Management Fees") or performance fees ("Performance Fees") are calculated. We believe that AUM is an important measure as we earn Management Fees, calculated as a percentage of AUM, and may earn Performance Fees, calculated as a percentage of: (i) our Funds' and Managed Accounts' excess performance over the relevant benchmark; (ii) the increase in net asset values of our Funds over a predetermined hurdle, if any; or (iii) the net profit in our Funds over the performance period. We monitor the level of our AUM because they drive our level of Management Fees. The amount of Performance Fees we earn is related to both the level of our investment performance and our AUM.

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

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

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 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 compensation, and is an indicator of our ability to pay dividends, invest in our business and continue operations. EBITDA is a measure commonly used in the industry by management, investors and investment analysts in understanding and comparing results by factoring out the impact of different financing methods, capital structures, the amortization of deferred sales charges and income tax rates between companies in the same industry. While each company may not utilize the same method of calculating EBITDA as we do, we believe it enables a better comparison of the underlying operations of comparable companies and we believe that it is an important measure in assessing our ongoing business operations.

Base EBITDA

"Base EBITDA" refers to EBITDA after adjusting for: (i) the exclusion of any gains (losses) on our proprietary investments including our initial contributions to our Funds on their inception, as if such gains (losses) had not been incurred and (ii) Performance Fees and Performance Fee-related bonuses. Management Fees are earned throughout the year. With the exception of Performance Fees attributable to redeemed units (termed as "Crystallized Performance Fees"), Performance Fees are earned on the last day of the fiscal year. Performance Fees are not as predictable and stable as Management Fees and therefore Base EBITDA enables us to evaluate the day-to-day results of operations throughout the year and is meaningful for the same reason.

This measure also allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as income or losses relating to our investment in certain proprietary investments.

We believe that these adjustments are necessary for a more meaningful presentation of our results of operations.

Management's Discussion & Analysis

OVERVIEW

The Company is a sole limited partner of SAM LP, SPW LP and SCLP. Through the three partnerships, the Company 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. Subsequent to the June 1, 2009 corporate reorganization, the majority of the Company's revenues are earned through SAM LP in the form of management fees and incentive fees earned through the management of the Funds and Managed Accounts; SPW LP earns most of its revenues via an intercompany trailer fee payment from SAM LP. SPW LP provides us with a competitive advantage by providing a unique distribution channel for our fund products; as well, it serves as a platform to brand and grow our wealth management business. SCLP enables us to benefit from our expertise in managing other companies, both public and private.

As at September 30, 2009, we had approximately 88,000 client accounts, including approximately 2,000 direct client accounts through SPW LP. Our clients are primarily retail, high net worth and, to a lesser extent, institutional investors who subscribe to our investing strategy and process. As at September 30, 2009, we managed approximately $4.3 billion in assets among our various Funds and Managed Accounts.

As at September 30, 2009, domestic hedge Funds accounted for 30.9% of AUM compared with 28.1% at September 30, 2008 while public mutual Funds accounted for 48.6% of AUM compared with 41.9% at September 30, 2008. Offshore Funds at September 30, 2009 totaled 10.8% of AUM as compared with 18.6% at September 30, 2008 and Managed Accounts at September 30, 2009 accounted for 9.7% of AUM compared with 11.4% in the prior year.

As mentioned above, the Company derives 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 discretionary 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, 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 0.8% to 2.5% per annum among series of units of the respective Fund's and Managed Account's average net assets. Management Fees accrue daily or monthly, depending on how frequently a particular Fund is valued, and are payable monthly or quarterly for certain Managed Accounts. 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 our Funds are calculated on a cumulative basis at the end of each fiscal year.

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

Management Fees are less variable and more predictable than Performance Fees. Management Fees are generally closely correlated with changes in AUM. However, the rate of change in our Management Fees may not exactly mirror the rate of change in our AUM, 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.

Management's Discussion & Analysis

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 LP.

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 LP as manager of the Funds ("Crystallized Performance Fees"). These Crystallized Performance Fees, as well as the related allocation to the employee bonus pool, are accrued for in the financial statements of SAM LP for the appropriate month.

Both the employee bonus pool component of compensation and trailer fees are correlated with average AUM. Changes in levels of trailer fees are generally a reflection of changes in domestic Fund sales through the advisor and dealer channel as well as changes in average AUM. We do not pay trailer fees on certain series/classes of domestic mutual Funds and hedge Funds or our offshore hedge Funds.

General and administration expenses have also increased over prior year as a result of the addition of employees, office space, technology, and other related infrastructure required to support the growth of our business.

We provide seed capital for our Funds and make other proprietary investments as part of our capital management process. Proprietary investments are classified as either held for trading, available for sale or held to maturity. Investments classified as held for trading are carried at fair value with the associated gains and losses recorded in the statement of income. Investments classified as available for sale or held to maturity are carried at cost less permanent impairment, if any.

HIGHLIGHTS

Financial highlights for the three and nine months ended September 30, 2009 were:

- AUM at September 30, 2009 were $4.3 billion. This reflects a decrease of $0.1 billion from $4.4 billion at June 30, 2009 and a decrease of $1.3 billion from the $5.6 billion of AUM at September 30, 2008. Average AUM in the third quarter of 2009 was approximately $4.2 billion as compared to approximately $6.7 billion in the third quarter of 2008, a decrease of 37.0%. Net redemptions for the quarter were $252 million but market values increased by an aggregate of $146 million, resulting in AUM decreasing by approximately $106 million.
- Management Fees for the quarter and nine months ended September 30, 2009 were $20.7 million and $65.0 million, respectively, representing a decrease of $12.2 million (37.0%) and $37.3 million (36.5%) over the corresponding periods in 2008.
- Base EBITDA for the quarter and nine months ended September 30, 2009 was $8 million and $23.7 million respectively, compared to $15.2 million and $49.0 million in the quarter and nine months ending September 30, 2008.
- Net income for the quarter and nine months of 2009 was $5.5 million and $18.5 million respectively, and represents earnings per share, basic and diluted, of $0.04 and $0.12. Net Income for the quarter and nine months ended September 30, 2008 was $3.7 million and $31.8 million respectively, representing earnings per share, basic and diluted, of $0.02 and $0.22. Had the 150 million issued and outstanding shares been outstanding for the full nine months ended September 30, 2008, earnings per share, basic and diluted, would have been $0.21.

SUMMARY BALANCE SHEET

(In $000's)	September 30, 2009	December 31, 2008
	$	$
Total Assets	**82,095**	123,430
Total Liabilities	**16,092**	43,916
Shareholders' Equity	**66,003**	79,514

SUMMARY INCOME STATEMENT

(In $000's, except per share amounts)	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
	$	$	$	$
Revenue				
Management fees	**20,702**	32,860	**64,971**	102,251
Crystallized Performance Fees	**152**	1,257	**2,367**	5,554
Unrealized and realized gains (losses) on proprietary investments	**657**	(9,706)	**3,567**	(4,310)
Other income	**520**	1,015	**874**	4,559
Total revenue	**22,031**	25,426	**71,779**	108,054
Expenses				
Compensation and benefits	**6,212**	9,513	**21,025**	29,313
Trailer fees	**4,672**	7,022	**14,092**	22,078
General and administration	**2,620**	2,721	**8,454**	7,796
Donations	**285**	306	**861**	997
Amortization	**197**	269	**636**	382
Total expenses	**13,986**	19,831	**45,068**	60,566
Income before income taxes	**8,045**	5,595	**26,711**	47,488
Provision for income taxes	**2,539**	1,927	**8,194**	15,720
Net income and comprehensive income for the period	**5,506**	3,668	**18,517**	31,768
Other expenses[1]	**771**	843	**2,358**	1,332
Provision for income taxes	**2,539**	1,927	**8,194**	15,720
EBITDA	**8,816**	6,438	**29,069**	48,820
Unrealized and realized (gains) losses on proprietary investments	**(657)**	9,706	**(3,567)**	4,310
Performance fees net of performance fee related bonus pool[2]	**(114)**	(943)	**(1,775)**	(4,165)
Base EBITDA	**8,045**	15,201	**23,727**	48,965
Net Income Per Share – basic	**.04**	.02	**.12**	.22
Net Income Per Share – fully diluted	**.04**	.02	**.12**	.22

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

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

Management's Discussion & Analysis

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2009 compared to three and nine months ended September 30, 2008

Overall Performance

At September 30, 2009, assets under management were $4.3 billion as compared with $5.6 billion at September 30, 2008 and $4.4 billion at June 30, 2009. In the third quarter of 2009, net redemptions in the underlying managed funds were $252 million while market values appreciated $146 million, resulting in the net $106 million decrease in AUM. More than half of the total redemptions for the quarter relate to the Sprott Opportunities Fund and the Sprott Opportunities Offshore Fund. Many of those redemptions are likely related to the fact that Jean Francois Tardif, a portfolio manager of those Funds, retired in July 2009. Several of our Funds, in particular most of our mutual Funds, generated strong investment returns during the quarter while most of our domestic hedge Funds and our offshore Funds which are defensively positioned grew very modestly or declined slightly during the quarter.

Monthly average AUM for the quarter and nine months ended September 30, 2009 was $4.2 billion and $4.4 billion respectively compared with $6.7 billion and $6.8 billion in the comparative prior year periods.

Revenues for the quarter and nine months ended September 30, 2009 totaled $22.0 million and $71.8 million respectively, a decrease of $3.4 million (13.4%) and $36.3 million (33.6%) compared to $25.4 million and $108.1 million for the comparable periods in 2008. Management fees fell by $12.2 million and crystallized performance fees were $1.1 million lower. However, there were realized and unrealized gains/losses on proprietary investments totaling to losses of $9.7 million in the third quarter of 2008 as compared with a gain of $0.7 million in the third quarter of 2009.

Expenses totaled $14.0 million for the quarter and $45.1 million for the nine months ended September 30, 2009, which is a decrease of $5.8 million or 29.5% and $15.5 million or 25.6%, respectively, as compared with the quarter and nine months ended September 30, 2008. The decreases are mainly attributable to a decrease in compensation and benefits and in trailer fees, both of which are correlated with management and performance fees.

Net income of $5.5 million for the quarter ended September 30, 2009 compares with net income of $3.7 million for the quarter ended September 30, 2008. For the quarter ended September 30, 2009, total revenues fell by 13.4% and expenses fell by 29.5%. Income taxes for the quarter ended September 30, 2009 were 31.8% higher than in the corresponding period in 2008 and net income increased by 50.1% when comparing the third quarter of 2009 with the third quarter of 2008. For the nine months ended September 30, 2009 net income of $18.5 million is 41.7% lower than the net income of $31.8 million for the nine months ended September 30, 2008

Assets Under Management

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

$ millions	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
AUM, beginning of quarter	4,444	7,726	4,449	6,215
Net sales (redemptions)	(252)	122	(503)	680
Market value appreciation (depreciation) of portfolios	146	(2,242)	392	(1,289)
AUM, end of quarter	4,338	5,606	4,338	5,606

Revenue

In the third quarter of 2009, total revenues decreased by $3.4 million or 13.4% to $22.0 million from $25.4 million in the three months ended September 30, 2008. For the nine months ended September 30, 2009, total revenues were $71.8 million or $36.3 million (33.6%) lower than in the corresponding period in 2008.

Management fees for the quarter decreased by $12.2 million or 37.0% to $20.7 million from $32.9 million in the third quarter of 2008, as monthly average AUM decreased by approximately 37.0% over the same period. Similarly, for the nine months to September 30, 2009, Management Fees of $65.0 million were $37.3 million (36.5%) less than Management Fees in the corresponding nine month period of 2008. Management Fee margins (defined as Management Fees as a percentage of AUM) remained fairly constant at 2.0% for the three and nine months ended September 30, 2009; similar margins were realized in the corresponding periods in 2008. Mutual funds and domestic hedge funds assets as a percentage of total AUM increased in 2009 compared to 2008, while offshore funds and managed accounts decreased. Overall, this resulted in constant margins as compared with the comparative periods.

Crystallized performance fees for three and nine months ending September 30, 2009 were $0.2 million and $2.4 million, respectively, which are $1.1 million and $3.2 million lower than the $1.3 million and $5.6 million received for the corresponding periods in 2008. During the first nine months of 2008 many of our Funds had significant accrued Performance Fees, resulting in the crystallization thereof when such funds were redeemed. Accrued Performance Fees were much lower in 2009, particularly in the second and third quarters, so little Crystallized Performance Fee revenue was received upon redemptions of the underlying funds.

Gains from proprietary investments (realized and unrealized) in the third quarter and nine months ended September 30, 2009 totaled $0.7 million and $3.6 million, respectively, as compared with the losses of $9.7 million and $4.3 million for the quarter and nine months ended September 30, 2008. The gains in the quarter and nine months of 2009 were mainly driven by the appreciation of our investments in public equities. During the nine months ended September 30, 2009, sales of public equities resulted in a net realized gain of $2.0 million, in addition to the appreciation in the market value of public equities resulting in net unrealized gains of $1.6 million. The realized gain was primarily due to the corporate reorganization of Sprott Molybdenum Participation Corporation ("Sprott Moly"). As a result of this reorganization, the Company exchanged 3,976,000 shares or 10.08% of Sprott Moly for 3,976,000 shares of Cadomin Capital Corporation (now an unrelated company) and approximately $1.76 per share in cash. For the third quarter of 2008, the loss was mainly due to the decline in the market value of public equities as well as in an investment in a hedge fund managed by SAM LP. During the nine months ended September 30, 2008, a substantial portion of proprietary investments was sold as a part of a capital reorganization prior to the IPO thereby resulting in total realized gains of approximately $9.8 million; a majority of the realized gains related to precious metal bullion as well as investments in certain publicly traded equities. During the same period, declines in the market value of investments in other public companies and an investment in a hedge fund triggered an unrealized loss of $14.1 million.

Proprietary investments at September 30, 2009 comprise of an investment in various public and private equities, investments in various funds managed by SAM LP, gold bullion and an investment in a secured note receivable.

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

Other income fell by $0.5 million to $0.5 million for the quarter ended September 30, 2009 and fell by $3.7 million to $0.9 million for the nine months ended September 30, 2009 compared with the corresponding periods in 2008. The decline in the current quarter is mainly due to foreign exchange losses, lower early redemption fees, and lower commissions which more than offset the higher interest revenue as compared to the third quarter of 2008. Similarly for the nine month period ending September 30, 2008, SAM LP had a foreign exchange gain as well as higher early redemption fees, higher interest revenue and higher commission income as compared to the corresponding periods in 2009.

Expenses

Total expenses for the three and nine month period ended September 30, 2009 were $14.0 million and $45.1 million respectively, a decrease of $5.8 million (29.5%) and $15.5 million (25.6%) compared with $19.8 million and $60.6 million for the corresponding period in 2008. The decline in the current quarter is mainly attributable to a decrease in compensation and benefits of $3.3 million and a decrease in trailer fees of $2.4 million as compared with the third quarter of 2008. Similarly the decline in the current nine month period is mainly due to a decrease in compensation and benefits of $8.3 million and a decrease in trailer fees of $8.0 million, partially offset by an increase in general and administrative costs of $0.7 million. Although higher year over year, general and administrative expenses have declined quarterly on a sequential basis since the first quarter of this year.

Changes in specific categories are described in the following discussion:

Compensation & Benefits

Compensation and benefits expense for the quarter and nine months ended September 30, 2009 amounted to $6.2 million and $21.0 million, respectively, including contributions to the discretionary employee bonus pool of $2.4 million and $7.7 million, respectively. The same expense category for the quarter and nine months ended September 30, 2008 was $9.5 million and $29.3 million, respectively. The decrease in compensation and benefits of $3.3 million for the quarter and $8.3 million for the nine month period (34.7% and 28.3%, respectively), primarily reflects a lower contribution to the employee bonus pool due to lower operating income based on Management Fees, net of operating expenses, and lower Crystallized Performance Fees to date in 2009 as compared to 2008. Compensation costs also include stock option benefit costs that are higher in the nine months ended September 30, 2009 as the fair value at the time of grant of the stock options in the Company increased as a result of going public in May 2008 as compared with the stock option costs in the private company.

Trailer Fees

Trailer fees are correlated with AUM and Management Fees. For the quarter and nine months ended September 30, 2009 trailer fees of $4.7 million and $14.1 million were 33.5% and 36.2% lower than in the corresponding periods of 2008. As a percentage of management fees, trailer fees increased to 22.6% from 21.4% in the three months ended September 30, 2008. This increase is mainly due to a proportionate increase in the AUM of funds that pay trailer fees.

General & Administration

General and administration expenses overall were marginally lower at $2.6 million for the quarter ended September 30, 2009 as compared with the third quarter of 2008 and increased by $0.7 million or 8.4% to $8.5 million for the nine months ended September 30, 2009 as compared with the same nine month period in 2008. Although higher year over year, general and administrative expenses have decreased by 6.2% as compared to the second quarter of 2009.

Higher year over year expenses are primarily due to higher legal and professional fees incurred due to the restructuring of our subsidiaries, higher marketing costs, in particular, the Night With the Bears event in April 2009 and the fund roadshows in September 2009, increased regulatory fees and new fund start-up costs.

Charitable Donations

The Board of Directors of SAMI approved a charitable donations program which became effective in fiscal 2008. Under this program, the amount of charitable donations made each year is 1% of the previous year's net income before tax, as may be adjusted from time to time based on profitability, cash flow and other similar measures. In addition to donations under the program that are directed specifically to children's charities, we make other corporate donations to selected causes. Net income before income tax was higher in 2007 than in 2008 and as a result, the accrual under the charitable donations program is lower in 2009 than in 2008.

Amortization

In 2007, the Company changed its policy for amortizing artwork since the artwork does not have a determinable useful life. In January 2008, all previously accumulated amortization on artwork, totaling $0.2 million was reversed. Thus, amortization expense was lower in the first nine months of 2008, while 2009 reflects a slight increase due to an increase in the fixed assets.

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 quarter and nine months ended September 30, 2009, EBITDA was $8.8 million and $29.1 million, respectively, compared with $6.4 million and $48.8 million for the corresponding periods in 2008. Net income of $5.5 million in 2009 is $1.8 million higher than in the third quarter of 2008 and the provision for income taxes in 2009 is $0.6 million higher than in third quarter of 2008, resulting in EBITDA being $2.4 million higher in the third quarter of 2009 than in the third quarter of 2008. The increase in EBITDA in the third quarter of 2009 as compared to the third quarter of 2008 is a result of proprietary investments gains/losses, which were a gain of $0.7 million in 2009 as compared to a loss of $9.7 million in the same 2008 period. This increase in proprietary investment gains combined with lower expenses more than offset the decrease in management fees.

For the nine months ended September 30, 2009, net income of $18.5 million is $13.3 million or 41.7% lower than in the first nine months of 2008. EBITDA for the first nine months of 2009 of $29.1 million is 40.5% lower than the EBITDA of $48.8 million for the first nine months of 2008. For further clarity, EBITDA is reconciled to Net Income in the Summary Income Statement table contained elsewhere in this MD&A.

Base EBITDA, as previously defined 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 proprietary investments. For the quarter ended September 30, 2009 Base EBITDA was $8.0 million as compared with $15.2 million in the third quarter of 2008, representing a decrease of 47.1%. As discussed above, there were significant realized and unrealized losses on proprietary investments for the quarter ended September 30, 2008. These losses are added back to EBITDA in order to calculate Base EBITDA. Conversely, Performance Fees, net of Performance Fee-related bonus pool contributions, were $0.8 million lower in the third quarter of 2009 than in the corresponding period in 2008. As a result of these two factors, Base EBITDA fell by 47.1% for the quarter ending September 30, 2009.

Base EBITDA for nine months ended September 30, 2009 was $23.7 million as compared with $49.0 million in the first nine months of 2008, representing a decrease of 51.5%. Gains on proprietary investments for the nine month period in 2009 of $3.6 million compared with losses of $4.3 million for the nine months ended September 30, 2008, while Performance Fees, net of Performance Fee-related bonus pool contributions, were $2.4 million lower in the first nine months to September 30, 2009 than in the corresponding period in 2008. As a result, Base EBITDA fell by 51.5% year-over-year.

Income before taxes for the three and nine months ended September 30, 2009 was $8.0 million and $26.7 million compared with a pre-tax net income of $5.6 million and $47.5 million for the quarter and nine months ended September 30, 2008. Effective tax rates were lower in the three and nine months ended September 30, 2009 as compared to the same periods in 2008 due to slightly lower statutory tax rates combined with a larger portion of income earned in the form of capital gains as compared to business income.

Net income for the quarter and nine months ended September 30, 2009 was $5.5 million and $18.5 million, respectively, as compared to a net income of $3.7 million and $31.8 million for the corresponding period in 2008.

Balance Sheet

Total assets at September 30, 2009 of $82.1 million are $41.3 million less than at December 31, 2008. Cash and cash equivalents of $43.2 million were $46.7 million lower than at December 31, 2008 primarily due to the payment of year-end bonuses, dividends, income taxes and the purchase of proprietary investments. The income taxes payment schedule was accelerated due to the corporate reorganization that took place on June 1, 2009 since the reorg triggered a deemed tax year end. Material proprietary investments purchased in 2009 include the secured note receivable and gold bullion. Proprietary investments are discussed in more detail in the Revenue section of this MD&A. Fees receivable at September 30, 2009 were $3.5 million, which is $10.1 million lower than at December 31, 2008 as year-end fee receivables include some Performance Fees that were received in January 2009. Other assets increased by $1.6 million since December 31, 2008 mainly due to an increase in interest receivable and the timing of collection of amounts recoverable from the Funds. Amounts recoverable from the Funds were materially higher than usual as at September 30, 2009 due to costs incurred relating to a proposed new product.

DIVIDENDS

In the first quarter of 2009, the Company recorded a special dividend in the amount of $0.15 per common share. The special dividend related to 2008 earnings. A regular dividend of $0.025 per common share was paid to shareholders of record for each of the first and second quarters of 2009.

In November 2009, a dividend of $0.025 per common share was declared for the quarter ended September 30, 2009.

OUTSTANDING SHARE DATA

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

Earnings per share as at September 30, 2009 and September 30, 2008 have been calculated using the weighted average number of shares outstanding by applying the exchange ratio above to SAMI 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 has been no change in the number of issued and outstanding shares since the IPO.

A total of 2,550,000 stock options have been issued pursuant to our incentive stock option plan. As at September 30, 2009, 850,000 of those stock options were exercisable.

MANAGING RISK

Market Risk

We monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risk resulting from the nature of our business. We approach investment risk management for our clients on two levels: on the asset allocation level and on the investment product level. At the asset allocation level, we focus on mitigating risk through the appropriate selection and weighting of portfolio models for each client to reflect their suitability and risk tolerance. At the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies.

Internal Controls and Procedures

We have internal control policies related to our business conduct. They include controls required to ensure compliance with the rules and regulations of relevant regulatory bodies including the Ontario Securities Commission and the Investment Industry Regulatory Organization of Canada ("IIROC").

Disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR")

Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the 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's 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.

[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.

As at September 30, 2009, there were no material changes to the Company's disclosure controls and procedures or internal controls over financial reporting.

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.

Fair Allocation

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

Independent Review Committee

National Instrument 81-107 *Independent Review Committee for Investment Funds* ("NI 81-107") requires all publicly offered investment funds to establish an independent review committee to whom all conflicts of interest matters must be referred for review or approval. We have established one independent review committee for all of our public mutual Funds. As required by NI 81-107, we have established written policies and procedures for dealing with conflict of interest matters, and we maintain records in respect of these matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is comprised of three independent members, and is subject to requirements to conduct regular assessments and provide reports to us and to the holders of interests in our public mutual Funds in respect of its functions.

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.

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. For further details, please refer to the Annual Information Form dated March 24, 2009.

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.

SAM LP is an exempt market dealer and portfolio manager and SPW LP is an investment dealer and a member of IIROC. Both entities are required to maintain minimum levels of capital as prescribed by the relevant rules and/or regulation. We did not renew our credit facility upon its expiry during September 2009 due to a significant proposed increase in the cost thereof coupled with the fact that we had rarely utilized any portion of the facility and we do not anticipate any requirement to draw on the facility in the foreseeable future. During the quarter ended September 30, 2009, SPW LP was in compliance with the capital requirements of IIROC and SAM LP was in compliance with the capital requirements prescribed by Ontario Securities Legislation.

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, stock options and valuation of certain proprietary investments.

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 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.

Some of the Company's proprietary investments are classified as available for sale and/or held for trading. Such investments are generally not traded in an active market and are valued at cost less other than temporary impairment, if any, or at "fair value". Management monitors all proprietary investments on a regular basis and makes all reasonable efforts to obtain publicly available information related to such investments. However, since the amount of information for investments that are not publicly traded is often limited, fair value of available for sale, held to maturity investments and certain held for trading investments could subsequently prove to differ from amounts at which they are carried on the balance sheet.

Certain fees recoverable from funds or third parties relate to new investment products and are contingent upon a successful completion of such product launches. Management evaluates such assets on a regular basis and only capitalizes the portion of the recoverable that is more likely than not to be recovered.

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, investments in private and public equities, an investment in a secured note as well as investments in mutual funds and hedge funds, fees receivable, accounts payable and accrued liabilities and compensation payable. Investments in public equities, mutual funds and hedge funds are recorded on the balance sheet at their fair values; investments in private equities are recorded at cost less any impairment, while the secured note has been classified as held to maturity.

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

Most of the artwork displayed in our office area was rented from Eric Sprott, President and CEO of the Company as well as from Sprott Securities Ltd., a corporation wholly owned by Mr. Sprott. The rental rate was equal to 3% per annum of the original acquisition cost of such artwork. Mr. Sprott and Sprott Securities Ltd. terminated the artwork rental charges effective May 2009.

CHANGES IN ACCOUNTING POLICIES

There were no significant accounting policy changes adopted by the Company during the quarter.

FUTURE ACCOUNTING CHANGES

The CICA's Accounting Standards Board (AcSB) amended CICA Handbook Section 3862, Financial Intruments – Disclosures, to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. The amendments will be effective for the Company's 2009 annual consolidated financial statements.

Furthermore, on July 29, 2009, the AcSB amended Section 3855, Financial Instruments – Recognition and Measurement. The revised standard expands the definition of Loans and Receivables to include debt securities not quoted in an active market. The standard also amends the impairment model for held to maturity financial assets such that charges to income for other than temporary impairment are recognized for credit losses only rather than on the basis of a write-down to fair value. We are assessing the impact of the standard and will implement it in the fourth quarter of 2009.

International Financial Reporting Standards

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 Canadian GAAP that is currently 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. We engaged a major accounting firm to assist with the diagnostic review, which was completed in the third quarter of 2009. The diagnostic review helped us to identify and assess the overall effort required to produce financial information under IFRS. The diagnostic review has also identified several key areas of focus for the Company, including consolidation and financial instruments. In the third quarter of 2009, we have drafted a set of IFRS-compliant accounting policies, which will be reviewed and approved by senior management in the fourth quarter of 2009. We continue to closely monitor any accounting and reporting rule changes and evaluate the impact of such changes on our reporting and systems.

OUTLOOK

In our MD&A for the quarter ended June 30, 2009, we suggested that "U.S. bailouts and stimulus spending has led, or will lead, to continued printing of money and a debasing of the currency". It continues to be our view that gold (and other precious metals) will be the best "store of value" and that owning physical gold and silver along with mining stocks will enable our funds to benefit from the anticipated appreciation in the value of gold and other precious metals or, at the very least, to retain their value in the face of broad market declines. Several of our Funds have a substantial investment in precious metals bullion and mining stocks. Gold began the quarter at under USD 930 per ounce and ended the quarter above USD 1,000 per ounce. Similarly, silver closed at USD 13.6 per ounce on June 30, 2009 and at USD 16.65 per ounce on September 30, 2009. Many mining stocks also appreciated significantly along with the rising prices for the precious metals. The Sprott Gold and Precious Minerals Fund managed by Charles Oliver and Jamie Horvat returned 21.64% for the quarter to September 30, 2009 and was up over 77.09% for the nine months then ended.

The long side of a number of our hedge Funds also benefitted from their investments in precious metals and related mining stocks. Stock markets seemed to view precious metals more as a store of value relative to the U.S. dollar rather than relative to stocks in general and the Dow Jones Industrial Average and the S&P/TSX Composite Index both rose through the quarter by about 20%. This rise constrained the short side of several of our hedge Funds and the rise of the Canadian dollar relative to the U.S. dollar reduced the impact to our Funds of the U.S. dollar increase in the price of gold and silver bullion. As a result most of our domestic and offshore hedge Funds generated small positive returns or modest negative returns for the quarter. However, we remain committed to our investment theories – we believe that employment and consumer spending weaknesses, in the U.S. in particular, will manifest themselves in a market correction for stocks in those sectors with significant exposure to consumer spending.

Our mutual Funds benefitted from rising markets and superior stock selection with, for example, the Sprott Small Cap Equity Fund run by the investment team of Allan Jacobs and Peter Imhof increasing by 17.68%, the Sprott Energy Fund rising by 22.64% and the Sprott Growth Fund managed by Peter Hodson up by 11.98% over the quarter.

In May, Charles Oliver and Jamie Horvat assumed management of the Opportunities Funds with a similar philosophy to Jean-Francois Tardif. We had anticipated that the transition of lead responsibility for managing the Sprott Opportunities Fund and the Sprott Opportunities Offshore Fund subsequent to the retirement of Mr. Tardif in July would result in a level of above average redemptions. Over 50% of the total net redemptions from our Funds during the quarter related to the two Opportunities Funds.

As discussed in our MD&A for the second quarter of 2009, the creation of SPW LP provides us with a platform to separately brand and market our private wealth business. We are actively developing strategies to capitalize on that opportunity. As an initial step, we have introduced some fixed income products on our private wealth platform such as selected income funds managed by other fund managers.

Effective November 2, 2009 we changed the name of the FNSSC-Multi Manager Fund to "Sprott Multi-Manager Fund" and we have expanded the distribution of that Fund to include all investors through the offering of various series of units of the Fund. On the same date, we introduced a Low Load Option purchase option for investors in Series A units of our mutual Funds. This is the first time that we have introduced a purchase option whereby we will pay a commission to dealers. It is our intention to finance such sales through our internal cash resources.

We continually review our product line-up to identify opportunities for new funds that would either reinforce our current investment themes or complement our existing suite of funds. In particular, we are likely to add one or more investment products into our lineup in the next few months and we are considering other products for introduction next year.

Through SCLP, we have introduced into our business operations the concept of providing management and administrative services to other companies. SCLP has proven to be a valuable addition to our business, generating significant Performance Fees in 2008 and we believe is positioned to be an avenue for revenue growth and business expansion. Currently, SCLP manages Sprott Resource Corp. ("SCP"), a Toronto Stock Exchange – listed company, which invests in early stage corporate investments in the resource sector. On September 28, 2009, SCP announced that it had entered into an agreement to purchase all of the outstanding common shares of Auriga Energy Inc., a private oil and gas company operating in Alberta. In order to facilitate this transaction, it was proposed that SCP would issue almost 13.85 million shares. The acquisition closed on October 20, 2009. This share issuance will increase SCP's net asset value on which SCLP generates management fees. On October 13, 2009, SCP announced that its subsidiary, Orion Oil & Gas Ltd. ("Orion"), and Wintraysan Capital Corp. had entered into a letter of agreement for the combination of the two companies. In order to facilitate this transaction, Orion is proposing to raise additional capital. If successful, this transaction may result in a dilution gain for SCP and as a result certain incentive fees may accrue to SCLP. Both the success of the transaction and the amount of the dilution gain, if any, are uncertain.

Our sales force is working diligently to generate new sales but it continues to be a difficult sales environment. We are relentlessly pursuing strategies to continue the growth of our business through strong conviction in our investments themes, innovation and expansion of our product line and business platforms as well as continued determination to deliver superior fund performance to our clients.

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

Unaudited Interim Consolidated Balance Sheets

($ in thousands)	As at September 30, 2009	As at December 31, 2008
	$	$
Assets		
Current		
Cash and cash equivalents	**43,184**	89,888
Proprietary investments *(Notes 3)*	**27,165**	13,008
Fees receivable	**3,489**	13,557
Other assets	**2,396**	800
Total current assets	**76,234**	117,253
Future tax asset *(Note 9)*	**1,455**	1,481
Fixed assets, net *(Note 6)*	**4,406**	4,696
	5,861	6,177
Total assets	**82,095**	123,430
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**5,151**	5,625
Compensation and employee bonuses payable	**8,049**	21,811
Income taxes payable	**2,791**	16,480
Total current liabilities	**15,991**	43,916
Future tax liability	**101**	–
Total liabilities	**16,092**	43,916
Shareholders' equity		
Capital stock *(Note 4)*	**40,105**	40,105
Contributed surplus *(Note 4)*	**3,246**	1,524
Retained earnings	**22,652**	37,885
Total shareholders' equity	**66,003**	79,514
Total liabilities and shareholders' equity	**82,095**	123,430

See accompanying notes

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

($ in thousands, except for per share amounts)	For the three months ended **September 30, 2009**	For the three months ended September 30, 2008	For the nine months ended **September 30, 2009**	For the nine months ended September 30, 2008
	$	$	$	$
Revenue				
Management fees	**20,702**	32,860	**64,971**	102,251
Crystallized performance fees	**152**	1,257	**2,367**	5,554
Unrealized and realized gains (losses) on proprietary investments	**657**	(9,706)	**3,567**	(4,310)
Other income	**520**	1,015	**874**	4,559
	22,031	25,426	**71,779**	108,054
Expenses				
Compensation and benefits	**6,212**	9,513	**21,025**	29,313
Trailer fees	**4,672**	7,022	**14,092**	22,078
General and administrative	**2,620**	2,721	**8,454**	7,796
Donations	**285**	306	**861**	997
Amortization	**197**	269	**636**	382
Total expenses	**13,986**	19,831	**45,068**	60,566
Income before income taxes for the period	**8,045**	5,595	**26,711**	47,488
Provision for income taxes *(Note 9)*	**2,539**	1,927	**8,194**	15,720
Net income and comprehensive income for the period	**5,506**	3,668	**18,517**	31,768
Retained earnings, beginning of the period	**20,896**	21,350	**37,885**	123,173
Dividends declared	**(3,750)**	(3,750)	**(33,750)**	(138,399)
Dividend tax refund	**–**	–	**–**	4,726
Retained earnings, end of the period	**22,652**	21,268	**22,652**	21,268
Basic and diluted earnings per share *(Note 8)*	**$0.04**	$0.02	**$0.12**	$0.22

See accompanying notes

Unaudited Interim Consolidated Statements of Cash Flows

($ in thousands)	For the three months ended **September 30, 2009**	For the three months ended September 30, 2008	For the nine months ended **September 30, 2009**	For the nine months ended September 30, 2008
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the period	**5,506**	3,668	**18,517**	31,768
Add (deduct) non-cash items:				
Unrealized and realized (gains) losses on proprietary investments	**(657)**	9,706	**(3,567)**	4,310
Stock-based compensation	**574**	574	**1,722**	950
Amortization	**197**	269	**636**	382
Future income taxes	**240**	–	**101**	(267)
Other items	**(24)**	–	**(24)**	–
	5,836	14,217	**17,385**	37,143
Other assets	**(977)**	(76)	**(1,596)**	(1,082)
Fees receivable	**(181)**	5,486	**10,067**	49,654
Income taxes payable	**(496)**	(15,360)	**(13,689)**	(6,200)
Accounts payable and accrued liabilities	**1,227**	(1,273)	**(474)**	(2,927)
Compensation and employee bonuses payable	**1,013**	2,887	**(13,761)**	(112,411)
Proprietary investments	**–**	–	**–**	92,654
Cash provided by (used in) operating activities	**6,422**	5,881	**(2,068)**	56,831
INVESTING ACTIVITIES				
Purchase of proprietary investments	**–**	–	**(25,137)**	–
Sale of proprietary investments	**7,185**	–	**14,597**	–
Purchase of fixed assets	**(81)**	(267)	**(346)**	(1,243)
Long-term investments	**–**	–	**–**	(152)
Cash provided by (used in) investing activities	**7,104**	(267)	**(10,886)**	(1,395)
FINANCING ACTIVITIES				
Issuance of common shares	**–**	–	**–**	25,190
Dividend tax refund	**–**	–	**–**	4,726
Dividends paid	**(3,750)**	(3,750)	**(33,750)**	(128,250)
Cash used in financing activities	**(3,750)**	(3,750)	**(33,750)**	(98,334)
Net increase (decrease) in cash and cash equivalents during the period	**9,776**	1,864	**(46,704)**	(42,898)
Cash and cash equivalents, beginning of the period	**33,408**	49,531	**89,888**	94,293
Cash and cash equivalents, end of the period	**43,184**	51,395	**43,184**	51,395
Cash and cash equivalents:				
Cash	**11,389**	11,436	**11,389**	11,436
Short-term deposits	**31,795**	39,959	**31,795**	39,959
	43,184	51,395	**43,184**	51,395
SUPPLEMENTAL CASH FLOW INFORMATION				
Taxes paid	**2,781**	17,345	**21,845**	17,345

See accompanying notes

Sprott Inc.
Notes to the Unaudited Interim Consolidated Financial Statements *For the three and nine months ended September 30, 2009*

1. Corporate Activities

Sprott Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI").

On May 8, 2008, the Company filed a prospectus ("Prospectus") in each of the provinces and territories of Canada in respect of the initial public offering of 20 million common shares to be effected via a secondary offering by certain shareholders of the Company (the "Offering" or "IPO"). Common shares of the Company are traded on the Toronto Stock Exchange under the symbol SII.

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

2. Basis of Presentation and Significant Accounting Policies

Basis of presentation

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

Certain information and note disclosures normally included in the annual financial statements have been condensed or excluded. As a result, these unaudited interim consolidated financial statements do not contain all disclosures required for annual financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2008. All material adjustments which, in the opinion of management, are necessary for fair presentation of the results of the interim periods have been reflected in these consolidated financial statements. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

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

These unaudited interim consolidated financial statements have been prepared on a basis consistent with policies described in the notes to the audited financial statements for the fiscal year ended December 31, 2008.

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 unaudited interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. Management reviews these estimates periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

Future changes in accounting policies

The CICA's Accounting Standards Board (AcSB) amended CICA Handbook Section 3862, Financial Instruments – Disclosures, to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. The amendments will be effective for the Company's 2009 annual consolidated financial statements.

Furthermore, on July 29, 2009, the AcSB amended Section 3855, Financial Instruments – Recognition and Measurement. The revised standard expands the definition of Loans and Receivables to include debt securities not quoted in an active market. The standard also amends the impairment model for held to maturity financial assets such that charges to income for other than temporary impairment are recognized for credit losses only rather than on the basis of a write-down to fair value. We are assessing the impact of the standard and will implement it in the fourth quarter of 2009.

3. Proprietary Investments

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

	September 30, 2009	*December 31,* 2008
	$	$
Precious metal bullion		
Gold bullion	**6,030**	–
	6,030	–
Securities designated as held for trading		
Public equities and share purchase warrants	**4,221**	5,050
Mutual funds and hedge funds	**784**	7,958
	5,005	13,008
Securities held to maturity		–
Note receivable	**14,300**	–
	14,300	–
Securities available for sale		
Private equities	**1,830**	–
Total proprietary investments	**27,165**	13,008

As at September 30, 2009, investments in public equities consisted of investments in equities and share purchase warrants of companies in the gold and precious minerals sector.

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

Securities classified as held to maturity, consisted of a senior security term note receivable from a company in the gold sector paying 10% annual interest and maturing in 2014 and is recorded at amortized cost, less impairment, if any.

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

As at December 31, 2008, investments in public equities consisted of an investment in Sprott Molybdenum Participation Corporation ("Sprott Moly") and investments in mutual funds and hedge funds consisted entirely of investments in mutual funds and hedge funds managed by SAM LP.

4. Shareholders' Equity

(a) Capital stock and contributed surplus

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

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

	Stated value (in thousands)
	$
Balance, December 31, 2007	113
Exercise of 601,217 SAMI stock options	(113)
Contributed surplus related to SAMI stock options immediately prior to the completion of the IPO	–
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	1,524
Balance, December 31, 2008	1,524
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	1,722
Balance, September 30, 2009	3,246

(b) Stock option plans

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

In the second quarter of 2008, the Board of Directors of the Company granted options to certain directors and certain key employees. On May 6, 2008, 2,450,000 options were granted, with a fair market value of $2.71 and an exercise price of $10, expiring on May 6, 2018. On June 2, 2008, 100,000 options were granted, with a fair market value of $2.49 and an exercise price of $9.06, expiring on June 2, 2018. The fair value of the options granted in the second quarter of 2008 was determined using a weighted average risk free rate of 3.05% to 3.27%, an expected life of five years, weighted average expected volatility of 28% and an expected dividend yield of 1%. As at September 30, 2009, 850,000 options are exercisable.

For the three and nine months ended September 30, 2009, the Company recorded a compensation expense of $0.6 million (2008 – $0.6 million) and $1.7 million (2008 – $0.9 million), respectively, with a corresponding increase to contributed surplus.

There were no stock options granted in the nine months ended September 30, 2009.

(c) Objectives of managing capital

The Company's objectives when managing capital are:

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

The Company's capital is comprised of equity, including capital stock, contributed surplus and retained earnings. The Company is a sole limited partner of three limited partnerships: SPW LP, SAM LP and Sprott Consulting LP. SPW LP is a member of IIROC and SAM LP is a registrant of the OSC; as a result, both limited partnerships are required to maintain a minimum level of regulatory capital. To ensure compliance, senior management monitors regulatory and working capital on a daily basis.

In the normal course of business, the Company, through its limited partnerships and 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.

5. Related Party Transactions

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

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

(b) Artwork rental

Historically, the Company rented artwork from Mr. Sprott, CEO and President, as well as from Sprott Securities Ltd., a corporation wholly owned by Mr. Sprott. The rental rate was equal to 3% per annum of the amount paid to acquire the artwork displayed in the office area of the Company. For the three and nine months ended September 30, 2009, the Company incurred an expense of nil and $0.3 million, respectively (2008 – $0.2 million and $0.3 million, respectively), in artwork rental fees to Mr. Sprott and Sprott Securities Ltd.

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

(c) Sale of certain proprietary investments

Certain proprietary investments sold in anticipation of the Offering of the Company in the second quarter of 2008 were sold by SAMI to Mr. Sprott, at fair market value. The total value of proprietary investments sold to Mr. Sprott during the year ended December 31, 2008 amounted to approximately $8 million, $4 million of which was sold during the first quarter of 2008 and the remaining $4 million in the second quarter of 2008. Fair market value was determined by reference to publicly available price quotations and, for investments in private equities, by reference to recent arm's-length transactions in the stock.

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

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

6. Fixed Assets

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

	September 30, 2009		
	Cost	Accumulated amortization	Net book value
	$	$	$
Artwork	1,691	–	1,691
Furniture and equipment	1,738	1,006	732
Computer hardware and software	925	837	88
Leasehold improvements	2,939	1,044	1,895
	7,293	2,887	4,406

	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

7. Lease Commitments

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

	($ in thousands)
2009	389
2010	1,555
2011	1,555
2012	1,555
2013	1,555
	6,609

8. Earnings Per Share

For the three and nine months ended September 30, 2009, basic and diluted earnings per common share were $0.04 and $0.12, respectively. For the three and nine months ended September 30, 2008, basic and diluted earnings per common share were $0.02 and $0.22, respectively.

9. Income Taxes

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

	Three months ended September 30, 2009	*Nine months ended September 30,* 2009
	($ in thousands)	($ in thousands)
Income taxes at statutory tax rate (33%)	2,655	8,815
Decrease in income taxes resulting from:		
Rate differences, non-taxable portion of capital gains and other	(116)	(621)
Income tax provision as reported, effective tax rate of 31.6% and 30.7%, respectively	2,539	8,194

	Three months ended September 30, 2008	*Nine months ended September 30,* 2008
	($ in thousands)	($ in thousands)
Income taxes at statutory tax rate (33.5%)	1,874	15,909
Increase (decrease) in income taxes resulting from:		
Rate differences and other	53	(189)
Income tax provision as reported, effective tax rate of 34.4% and 33.1%, respectively	1,927	15,720

As at September 30, 2009, the future tax asset of $1.5 million related entirely to foreign accrual property losses and capital losses. As at September 30, 2009, the Company had approximately $7.2 million of unused capital losses realized on the disposition of a subsidiary by means of a dividend-in-kind; a future tax asset generated by these losses has been reduced by a valuation allowance to reflect the net amount of an entitlement to an asset that more likely than not will be realized.

As at September 30, 2009, future tax liability for the three and nine months ended September 30, 2009 amounted to $0.1 million and related to unrealized capital gains generated by the proprietary investments.

10. Risk Management Activities

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

(a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. The Company's financial instruments are classified as either held for trading, available for sale or held to maturity and measured either at fair value or cost less permanent impairment, if any. Therefore, changes in fair value or permanent impairment, if any, affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments classified as held for trading and cost less permanent impairment, if any, for investments classified as available for sale or held to maturity. The Company manages market risk by regular monitoring of its proprietary investments.

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

Price risk

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

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

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

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

In the second quarter of 2009, the Company, through its wholly-owned subsidiary, SAMGENPAR Ltd., invested $15 million in a senior secured term note bearing an interest rate of 10% per annum and secured against the assets of the issuer. There is no interest rate risk that could immediately affect earnings associated with this investment as it is carried at amortized cost and management intends to hold the investment to maturity.

Foreign exchange risk

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

As at September 30, 2009, approximately $7.6 million or 9.28% of total assets was invested in proprietary investments held for trading and precious metal bullion priced in U.S. dollars ("USD"). Furthermore, a total of $0.3 million of cash, $0.5 million of accounts receivable and $0.3 million of other assets were denominated in USD. As at September 30, 2009, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant and before tax, the increase or decrease, respectively, in income before income taxes would have amounted to approximately $0.4 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 September 30, 2009, the Company's most significant counterparty is Cormark, the carrying broker of SPW LP, which also acts as a custodian for most of the Company's proprietary investments. Cormark is registered as an investment dealer subject to regulation by the IIROC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

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

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

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. As at September 30, 2009, the Company also has $43.2 million or 52.6% of its total assets in cash and cash equivalents. The majority of current assets reflected on the consolidated balance sheets are highly liquid. Approximately $10.1 million or 37.3% of proprietary investments held by the Company are readily marketable and are recorded at their fair value. Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within several months. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis.

11. 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.

12. Subsequent Event

In November 2009, a dividend of $0.025 per common share was declared for the quarter ended September 30, 2009 in an aggregate amount of $3.75 million.

Corporate Information

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