Sprott Inc. Annual Report 2010

PRIMED FOR GROWTH

98%

of Sprott's Equity and Hedge Fund Assets under Management Outperformed their Benchmarks in 2010

Assets under Management

Amount	Year-over-Year Change
$8.5 Billion	+$3.7 Billion +79%

Assets under Administration

Amount	Year-over-Year Change
$3.6 Billion	+$2.5 Billion +44%

Management Fees

Amount	Year-over-Year Change
$104 Million	+$16 Million +18%

Performance Fees

Amount	Year-over-Year Change
$200 Million	+$187 Million +1,441%

Net Income

Amount	Year-over-Year Change
$131.2 Million	+$99 Million +312%

11 Funds

Returned in Excess of 30% in 2010

2010 Performance Highlights

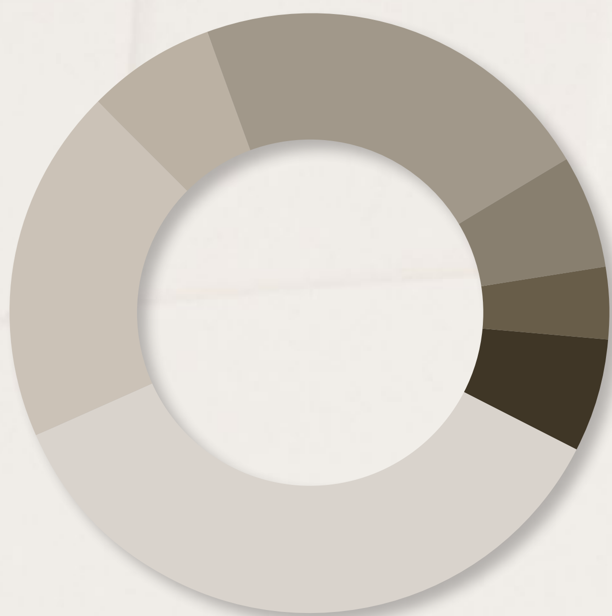
Sprott Gold and Precious Minerals Fund, Series A	Sprott Canadian Equity Fund, Series A	Sprott Small Cap Equity Fund, Series A
+74.73%	+57.55%	+50.32%
Sprott Small Cap Hedge Fund	**Sprott Hedge Fund L.P., Class A**	**Sprott Energy Fund, Series A**
+50.27%	+41.22%	+32.65%

Please see pages 12 and 13 for complete Fund performance results.
All figures as at December 31, 2010.

"With our recent acquistion, we are more diversified by product type, client, geography and investment manager."

$9.2 Billion

Assets under Management*



	Products	$ Millions	%
	Mutual Funds	3,372	36
	Domestic Hedge Funds	1,739	19
	Offshore Funds	686	7
	Bullion Funds	2025	22
	Direct Management	513	6
	Managed Accounts	389	4
	U.S. Limited Partnerships	525	6

Assets under Management Able to Earn a Performance Fee*	
$7.1 Billion	77% of Overall AUM

Assets under Management in Captive Pools*	
$2.9 Billion	31% of Overall AUM

* Includes Sprott U.S. Holdings Inc. which began operating on February 4, 2011. All figures as at December 31, 2010.

In 2010, Sprott added **11** new Investment Funds and Managed Companies.

$5.3 Billion

Assets under Administration*

Products	$ Billions	%
Sprott Private Wealth LP	3.6	68
Global Resource Investments Ltd.	1.7	32

"We are committed to leveraging our existing platform to grow our assets and increase the scale and shareholder returns of our business."

LETTER TO SHAREHOLDERS

Dear Shareholders,

I am delighted to have joined Sprott Inc. (“Sprott”) at such an exciting time and during what proved to be such an outstanding year for Sprott and its shareholders. I have closely followed Eric and his team since we worked together in the 1990’s and it was remarkable to rejoin and learn firsthand how strong the franchise has become. I believe that the unwavering determination to deliver investment performance to our clients, combined with a culture of excellence, entrepreneurship and ethical conduct, has provided a foundation that will drive the growth of the Company for many years to come.

The past year was fruitful for investors over a wide range of asset classes and strategies, with the S&P/TSX index rising by 17.6 % and the DEX Universe Bond index rising by 6.7%. The fuel for this performance was provided by governments globally, who successfully averted a series of potential liquidity, banking and economic crises through a variety of quantitative easing and stimulus programs. The resulting rebound in economic indicators and positive fund flows into the “risk” markets continued throughout the year.

In this environment, our investment team delivered exceptional results to our investors. Driven by our outstanding investment performance and strong inflows into new products and managed companies, our Assets under Management (AUM) stood at $8.5 billion – an increase of 79% from December 31, 2009.

On the year, Sprott earned $200 million in performance fees, $202 million in EBITDA and generated total revenue of $323 million. Our Board of Directors subsequently approved the payout of a substantial portion of the 2010 net performance fees to our shareholders in the form of special dividends totaling $0.72 per share. These stellar financial results helped propel Sprott’s share price from $4.50 to $8.06 in 2010. We are pleased to report that we have now eliminated almost all of the performance fee deficits that accrued in our Funds in 2008 and 2009, and our Funds are well positioned to once again generate performance fee revenue in 2011.

When I joined in September 2010, I outlined three key priorities for our business:

1. Stay focused on performance;
2. Leverage our platform;
3. Grow globally.

We have made solid progress in advancing these strategies across the Sprott Group of Companies.

Focus on Performance

Sprott has a team of best-in-class portfolio managers, market strategists, technical experts and analysts that is widely-recognized for its investment expertise, unique approach and our performance track record. The basis of our approach is to complete detailed macroeconomic analysis with a view to identifying key future trends and opportunities. Our investment team then pursues a deeper level of knowledge by completing detailed "bottom-up" analysis on the universe of securities in each target area, with a view to selecting those with the best value and leverage to the market we are targeting. Once an opportunity is identified, we invest decisively and with conviction.

Performance has always been the core objective of our firm and in 2010, Sprott Asset Management, ("Sprott") delivered significant out-performance to our investors. On the year, 98% of our equity and hedge Funds exceeded their benchmark indices – some by a wide margin. The majority of our Funds posted returns of more than 30%, of which four Funds delivered returns greater than 50%. This truly exceptional performance speaks to the outstanding talent and breadth of our investment management team.

As early as 2000, our research indicated that gold and silver were poised for appreciation and a number of our Funds established overweight positions in precious metals stocks and physical bullion. These Funds continued to benefit greatly from this conviction, as gold bullion rose by almost 30% during the year and silver bullion increased by 83%. We have recently turned our attention to silver as an area of focus and we believe our Funds remain well positioned for our outlook for the next years.

Leverage our Platform

We are committed to leveraging our existing platform to grow our assets and increase the scale and shareholder returns of our business. We plan to achieve this by diversifying into new products, entering new markets and distribution channels, and developing new businesses where we believe we have a sustainable, competitive advantage.

In 2010, we grew our business through the addition of several new revenue platforms including:

- Our exchange-traded Sprott Physical Bullion Funds
- The addition of managed companies – Sprott Resource Lending Corp. and Sprott Power Corp.
- Sprott Fixed Income and Balanced Funds
- Sprott Flow-Through Funds

Consistent with our business model, many of these new growth platforms have been structured as long-term or captive capital asset pools and most of them are eligible to earn performance fees.

In particular, we highlight the successful launch of our first closed-end funds listed on the TSX and the NYSE Arca – the Sprott Physical Gold Trust and the Sprott Physical Silver Trust. Designed to meet rising investor demand for physical metals, these two Trusts were major successes, raising a combined $1.7 billion in 2010. Besides supporting our investment thesis that precious metals will continue to appreciate in value, these investment vehicles allow us to expand our client base and increase our brand recognition by offering products that are easily accessible to U.S. and international investors.

Several of Sprott's managed companies should also be highlighted for their growth potential. Sprott Consulting, added two new managed companies in 2010. Sprott Consulting has a private-equity like mandate and can react to opportunities quickly and utilize multiple channels for fundraising. One of the new businesses is Sprott Resource Lending Corp., which offers mezzanine loans to the resource sector and has approximately $250 million in capital to deploy. The other is Sprott Power Corp., which has a growing portfolio of renewable energy projects and currently has a book value of approximately $100 million. As well, Sprott Resource Corp. enjoyed another outstanding year and is poised to generate significant performance fee revenue through successful investments in Orion Energy, Stonegate Agricom, One Earth Farms and a portfolio of other resource prospects with a total value at market of approximately $600 million. Sprott Consulting is quickly becoming a valuable and substantial business which boasts an enviable record of wealth creation.

Grow Globally

Perhaps the most significant development for 2010 was our acquisition of Global Resource Investments, Ltd., Terra Resource Investment Management Inc., and Resource Capital Investment Corporation (together "Global"), which was completed in February 2011. The acquisition of Global brings us the deep expertise of a talented team of resource specialists whom we believe will materially enhance our idea flow and performance in the mining, energy and agriculture sectors. Global's founder Rick Rule, who is internationally renowned as a resource investor and has an outstanding long term performance record as a manager, will broaden our portfolio management team and has become a major shareholder of Sprott Inc.

The addition of Global added $0.7 billion to our total AUM and $1.7 billion to our Assets under Administration. The firm will serve as a platform for the expansion of our investment capabilities into the U.S. market, which we believe offers the potential for tremendous growth.

Looking Ahead

Our company has spent the past few years investing heavily in building an investment team, operations, systems, marketing and compliance regime, which has positioned us to become one of the global leaders in the fragmented alternative asset management industry. The team of experts and management in our organization is second to none. We are now in a position to begin to capitalize on these investments and team. With a strong balance sheet backed by over $100 million in cash and investments and $50 million in available and undrawn credit lines, we have the financial strength to support the development of new products, as well as to consider acquisitions of synergistic or new asset management businesses.

Our outlook for the balance of 2011 is tempered by our concerns about the double-edge sword of a weak consumer and an unsustainable government finance situation. On the one hand, the looming end of U.S. quantitative easing programs may well remove the liquor from the punch bowl, leaving sobering investors with the headache of more freely floating bond and currency markets. On the other hand, additional money printing will eventually lead to hurtful inflation. This is not an environment where we feel comfortable taking risk with anything other than "must-have" investments. Many of our investment managers are therefore focused on maintaining our precious metal exposure, increasing our silver investments and building appropriate positions in the energy, agriculture and infrastructure sectors.

Despite our cautious investment outlook for the year, Sprott is well positioned to continue to deliver excellent results for our investors and shareholders. The growth in our AUM and new managed companies, and the position of our Funds at or above their performance thresholds, leaves us in a good position to benefit from the tremendous upside leverage inherent in our business model.

In closing, as this is my first annual letter to our shareholders, I would like to first thank you for your continued support. I would also like to thank Eric Sprott and our entire Board of Directors for their ongoing counsel and guidance. We believe we are poised for great things in 2011 and look forward to reporting to you on our progress in the quarters to come.

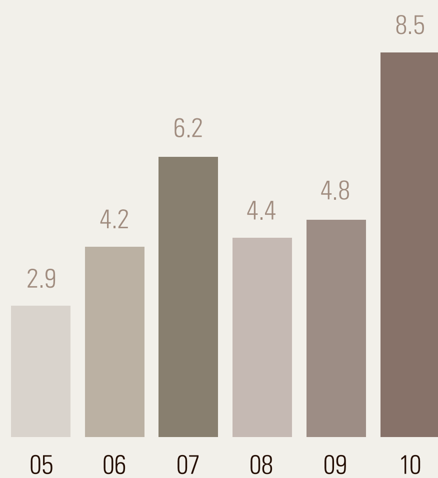
Sincerely,

Peter Grosskopf
Chief Executive Officer

FINANCIAL HIGHLIGHTS

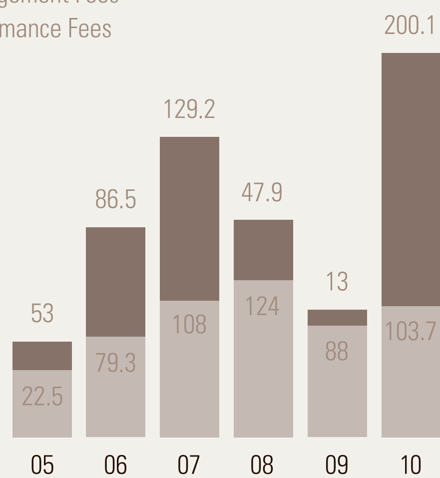
Assets under Management

In Billions ($)



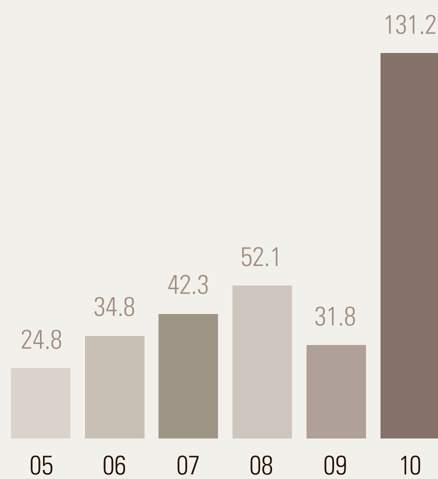
Fee Revenue

In Millions ($)
Management Fees
Performance Fees



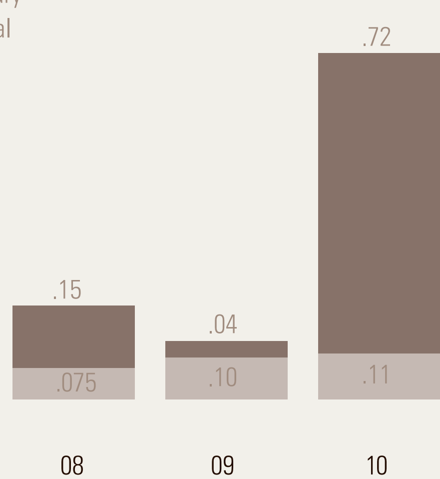
Net Income

In Millions ($)



Dividends per Share

In ($)
Ordinary
Special



* All figures as at December 31, 2010.

"Performance has always been the core objective of our firm and in 2010, Sprott Asset Management delivered significant out-performance for our investors."

KEY ACCOMPLISHMENTS

Performance Highlights

- 98% of Sprott's equity and hedge fund Assets under Management outperformed their benchmarks in 2010
- 11 Sprott Funds returned in excess of 30% in 2010

Top 5 Best Performing Funds	1 YR	3 YR	5 YR	10 YR	Since Inception
Sprott Gold and Precious Minerals Fund, Series A	74.7%	23.5%	19.7%	–	27.2%
S&P/TSX Global Gold Index	25.9%	10.7%	10.8%	–	13.2%
Value Added	48.8%	12.8%	8.9%	–	14.0%
Sprott Canadian Equity Fund, Series A	57.6%	6.4%	13.9%	22.8%	22.3%
S&P/TSX Composite Total Return Index	17.6%	2.1%	6.5%	6.6%	7.3%
Value Added	40.0%	4.3%	7.4%	16.2%	15.0%
Sprott Small Cap Equity Fund, Series A	50.3%	7.4%	–	–	9.3%
S&P/TSX SmallCap Total Return Index	35.1%	6.1%	–	–	5.2%
Value Added	15.2%	1.3%	–	–	4.1%
Sprott Small Cap Hedge Fund	50.3%	9.5%	–	–	12.9%
S&P/TSX SmallCap Total Return Index	35.1%	6.1%	–	–	4.5%
Value Added	15.2%	3.4%	–	–	8.4%
Sprott Hedge Fund L.P., Class A	41.2%	11.4%	16.5%	23.3%	23.7%
S&P 500 (CAD)	7.0%	-4.8%	-2.9%	-4.5%	-5.4%
Value Added	34.2%	16.2%	19.4%	27.8%	29.1%

Awards and Accolades

- Charles Oliver and Jamie Horvat named as one of the TopGun Canadian Metals & Mining Investment Minds, March 2011
- Eric Sprott has been named the "Top Financial Visionary in Canada" by Advisor.ca, March 2011
- Sprott Capital L.P., named Hedge Fund of the Year at the 2010 AR Awards, November 2010
- Kevin Bambrough, CEO Sprott Resource Corp., named as Top Pick by Casey's Next Ten Top 10 Rising Stars in the Natural Resource Sector, October 2010
- Sprott Gold and Precious Minerals Fund – Thomson Reuters Lipper Award "Best Fund Over One Year, Precious Metals Equity Category", February 2010

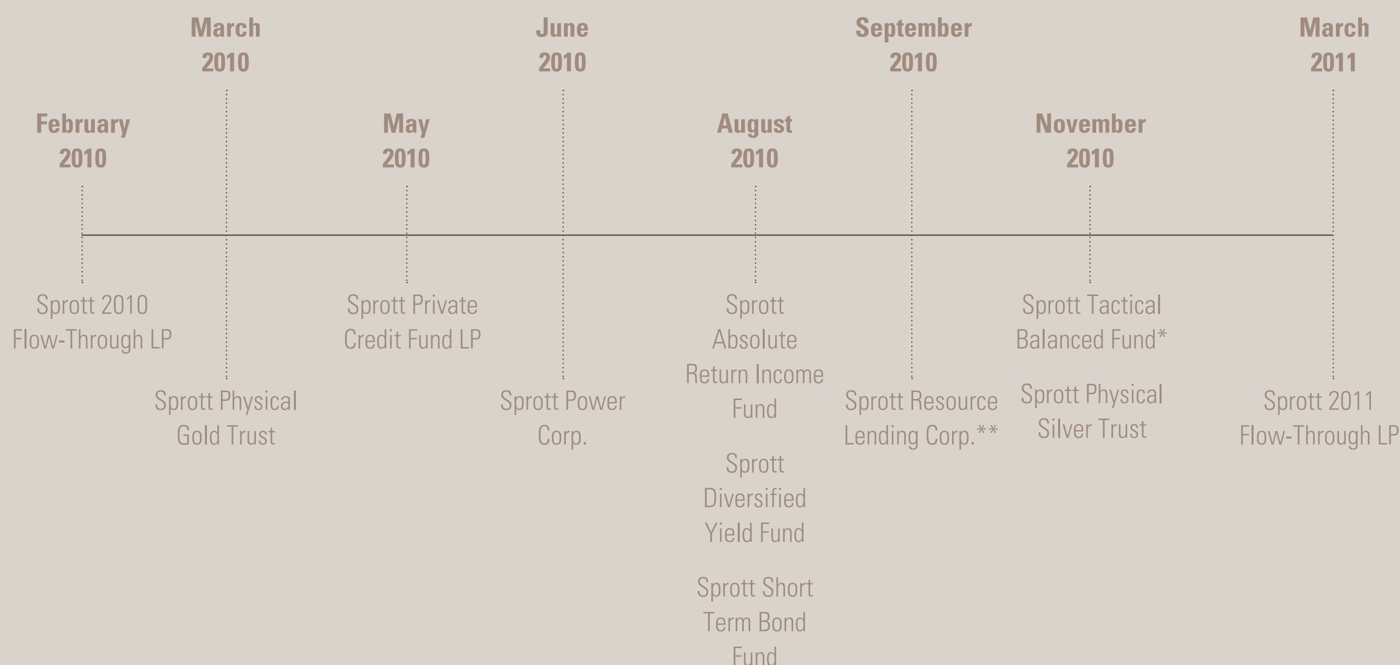
Acquisitions

- Acquired Global Resource Investments Ltd., Terra Resource Investment Management Inc. and Resource Capital Investments Inc., February 2011
- Added $715 Million in Assets under Management and $1.7 Billion in Assets under Administration

Strengthening Our Team

- Peter Grosskopf joins as CEO of Sprott Inc.
- Portfolio Manager Rick Rule joins Sprott's Investment Team and Executive Committee
- Promoted Eric Nutall to Lead Portfolio Manager on Sprott Energy Fund
- Hired Portfolio Managers Scott Colbourne and Michael Craig to manage Fixed Income Funds
- Hired John Ciampaglia as COO of Sprott Asset Management LP
- Developed management teams for Sprott Resource Lending Corp.** and Sprott Power Corp.**
- Hired Portfolio Manager Paul Wong, specialist in natural resource investing and capital markets research
- Appointed David Franklin as CEO of Sprott Private Wealth

New Products and Managed Companies



* On November 30, 2010, Sprott Asset Management LP received unitholder approval for changes to Sprott Multi-Manager Fund.

** Sprott Resource Lending Corp. (TSX:SIL) (NYSE AMEX: SILU) and Sprott Power Corp. (TSX: SPZ) are managed by Sprott Consulting LP, an affiliate of Sprott Inc. Neither company is an affiliate of Sprott Inc.

PERFORMANCE SUMMARY

Performance as of December 31, 2010

	1 YR	3 YR	5 YR	10 YR	Inception
SPROTT MUTUAL FUNDS					(Net of all fees)
Equity Focused					
Sprott Canadian Equity Fund, Series A (1997)	57.6%	6.4%	13.9%	22.8%	22.3%
Sprott Gold & Precious Minerals Fund, Series A (2001)	74.7%	23.5%	19.7%	-	27.2%
Sprott Energy Fund, Series A (2004)	32.6%	-6.0%	0.7%	-	12.3%
Sprott Growth Fund, Series A (2006)	15.2%	-12.6%	-	-	1.8%
Sprott Small Cap Equity Fund, Series A (2007)	50.3%	7.4%	-	-	9.3%
Sprott All Cap Fund, Series A (2008)	30.8%	-	-	-	17.0%
Sprott Tactical Balanced Fund, Series A (2009) (formerly Sprott Multi-Manager Fund)	27.8%	-	-	-	31.6%
Bullion Focused					
Sprott Gold Bullion Fund, Series A (2009)	21.4%	-	-	-	11.5%
Fixed Income Focused					
Sprott Diversified Yield Fund, Series A (2010) [1]	-	-	-	-	-
Sprott Short-Term Bond Fund, Series A (2010) [1]	-	-	-	-	-

	1 YR	3 YR	5 YR	10 YR	Inception
SPROTT HEDGE FUNDS					(Net of all fees)
Long/Short Equity Focused					
Sprott Hedge Fund L.P., Class A (2000)[2]	41.2%	11.4%	16.5%	23.3%	23.7%
Sprott Hedge Fund L.P. II, Class A (2002)	38.4%	13.4%	17.0%	-	12.2%
Sprott Bull/Bear RSP Fund, Class A (2002)	36.9%	14.1%	17.8%	-	15.0%
Sprott Opportunities Hedge Fund L.P., Class A (2004)	7.7%	4.8%	9.4%	-	17.7%
Sprott Opportunities RSP Fund, Class A (2005)	7.6%	4.6%	9.3%	-	9.8%
Sprott Small Cap Hedge Fund (2007)	50.3%	9.5%	-	-	12.9%
Asset Based Lending Strategy					
Sprott Private Credit Fund L.P., Class A, Series 1 (2010)	-	-	-	-	9.4%
Fixed Income Focused					
Sprott Absolute Return Income Fund, Class A (2010)	-	-	-	-	3.5%

Notes

Please note that all periods greater than 12 months are annualized.

[1] In accordance with NI 81-102, we will not publish returns for this fund until it is one-year old.

[2] The Sprott Hedge Fund L.P. is closed to new investments, please refer to the Sprott Hedge Fund L.P. II.

OFFSHORE FUNDS	1 YR	3 YR	5 YR	10 YR	Inception (Net of all fees)
Sprott Offshore Ltd. (2002)	48.2%	15.7%	22.6%	N/A	24.9%
Sprott Capital L.P. (2002)	48.1%	15.7%	22.6%	N/A	24.7%
Sprott Offshore II Ltd. (2007)	45.5%	16.6%	N/A	N/A	19.1%
Sprott Capital II L.P. (2008)	45.3%	16.0%	N/A	N/A	16.0%
Sprott Opportunities Offshore Ltd. (2006)*	0.4%	2.1%	N/A	N/A	6.6%
Sprott Opportunities Capital L.P. (2006)*	-1.5%	1.3%	N/A	N/A	6.1%

INDICES	1 YR	3 YR	5 YR	10 YR
S&P/TSX Composite Total Return Index	17.6%	2.1%	6.5%	6.6%
S&P/TSX Global Gold Index	25.9%	10.7%	10.8%	-
S&P/TSX Capped Energy Total Return Index	11.7%	0.5%	3.3%	-
S&P 500 Index (CAD)	7.0%	-4.8%	-2.9%	-4.5%
S&P 500 Index (USD)	12.8%	-5.0%	0.1%	-0.5%
Dow Jones Industrial Average	11.0%	-4.4%	1.6%	0.7%
NASDAQ Composite Index	16.9%	0.0%	3.8%	0.7%
S&P/TSX SmallCap Total Return Index	35.1%	6.1%	6.1%	-
MSCI World Index (CAD)	6.0%	-4.7%	-0.7%	-1.8%
BofA Merrill Lynch US High Yield Index	15.2%	10.1%	8.8%	8.6%
DEX Universe Bond Index	6.7%	6.2%	5.3%	6.3%

Notes

* Fund terminated on December 31, 2010.

THE SPROTT GROUP OF COMPANIES

Companies at a Glance

Relentless Pursuit of Performance

Our mission is to deliver outstanding performance results for our investors over the long-term.

With a history going back to 1981, **Sprott Inc.** offers a collection of investment managers, united by one common goal; delivering superior long-term returns to our investors. Sprott has a team of Best-in-Class portfolio managers, market strategists, technical experts and analysts that is widely-recognized for its investment expertise, performance results and unique investment approach. Our Investment Team relentlessly pursues a deeper level of knowledge and understanding which allows it to develop unique macroeconomic and company insights.

Our team-based approach allows us to uncover the most attractive investment opportunities for our investors. When an emerging investment opportunity is identified, we invest decisively and with conviction. We also co-invest our own capital to align our interests with our investors. Our history of outperformance speaks for itself.

Sprott Asset Management LP is the investment manager of the Sprott family of mutual funds, hedge funds and discretionary managed accounts. Sprott Asset Management offers a Best-in-Class Investment Team led by Eric Sprott, world renowned money manager. The firm manages diverse mandates united by the same goal: delivering superior long-term returns to investors. Our team of investment professionals employs an opportunistic, high conviction and team-based approach, focusing on undervalued securities with the greatest return potential.

For more information, please visit www.sprott.com

Sprott Private Wealth LP provides customized wealth management to Canadian high-net worth investors, including entrepreneurs, professionals, family trusts, foundations, and estates. We are dedicated to serving our clients through relationships based on integrity and mutual trust.

For more information, please visit www.sprottwealth.com

Sprott Consulting LP provides active management services to independent public and private companies and partnerships to capitalize on unique business opportunities. The firm offers deep bench strength with a highly-talented and knowledgeable team of professionals who have extensive experience and a proven ability to design creative solutions that lead to market-beating value improvement. The firm has management services agreements with Sprott Resource Corp., Sprott Resource Lending Corp., and Sprott Power Corp.

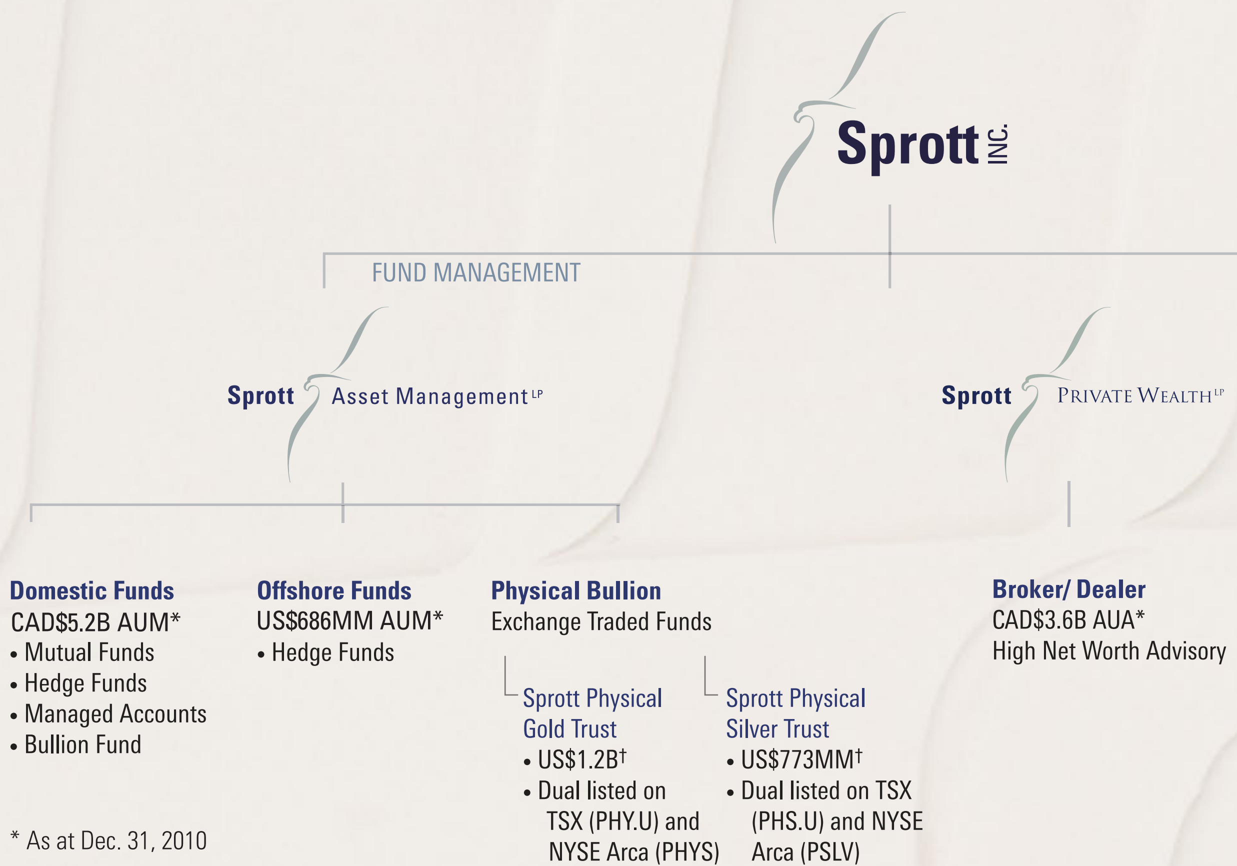
For more information, please visit www.sprottconsulting.com

Sprott U.S. Holdings Inc. offers specialized brokerage services and asset management in the natural resource sector. Global Resource Investments Ltd., our full-service U.S. brokerage firm, specializes in natural resource investments in the United States, Canada and Australia.

Founded in 1993, the firm is led by Rick Rule, a leading authority on investing in global natural resource companies. More than just brokers, the team is comprised of geologists, mining engineers, scientists and investment professionals.

For more information, please visit www.gril.net

THE SPROTT GROUP



OF COMPANIES

U.S. BROKERAGE & ASSET MANAGEMENT

Sprott U.S. Holdings Inc.

Global Resource Investments Ltd.
- US$1.7B AUA*
- Broker/Dealer

Resource Capital Investments Corp.
- US$525M AUM*
- Limited Partnerships

Terra Resource Investment Management Inc.
- US$140M AUM*
- Managed Accounts

DIRECT MANAGEMENT

Sprott Consulting LP

MANAGEMENT SERVICES AGREEMENT

Sprott Resource Corp.

TSX: SCP
$602MM†

Sprott Resource Lending Corp.

TSX: SIL
NYSE AMEX: SILU
$286MM†

Sprott Power Corp.

TSX: SPZ
$59MM CAD†

† Market capitalization as at Feb. 8, 2011

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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 December 31, 2010 compared with December 31, 2009. The Board of Directors approved this MD&A on March 22, 2011.

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.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December, 2010 and 2009 and the notes thereto.

The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") requiring estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of these statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates as a result of various factors.

Forward Looking Statements

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those listed in the "Risk Factors" section of the Company's annual information form dated March 22, 2011 (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 March 22, 2011 and will not be updated or revised except as required by applicable securities law.

Key Performance Indicators (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 net assets of our public mutual funds, hedge funds, offshore funds and bullion funds (the "Funds"), managed accounts ("Managed Accounts"), which include the accounts managed by Sprott Asset Management LP and managed companies ("Managed Companies") managed by Sprott Consulting LP 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', Managed Accounts' and Managed Companies' 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 our investment performance and our AUM.

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

Investment performance is a key driver of AUM. 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 determine the level of AUM which, as discussed above, is the basis on which Management Fees are charged and to which Performance Fees may be applied.

EBITDA

Our method of calculating EBITDA is defined as earnings before interest expense, income taxes, amortization of property and equipment, amortization of deferred sales charges, amortization of intangible assets and stock-based 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, Performance Fee related compensation and other Performance Fee related expenses. 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 proprietary investments.

Cash Flow from Operations

Our method of calculating cash flow from operations is defined as cash provided by operating activities adjusted for the impact of the net change in non-cash balances relating to operations.

This is a relevant measure in the investment management business since it represents cash available for distribution to our shareholders and for general corporate purposes.

We believe that these Key Performance Indicators are important for a more meaningful presentation of our results of operations.

Overview

In 2010, the Company operated through three wholly-owned subsidiaries, Sprott Asset Management LP ("SAM LP"), Sprott Private Wealth LP ("SPW LP") and Sprott Consulting LP ("SCLP"). Through these three partnerships, the 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 services to our clients.

On June 1, 2009 we completed a corporate reorganization of SAMI whereby SAMI was dissolved and its operations were separated into three business lines: discretionary portfolio management by SAM LP, broker-dealer services by SPW LP, and consulting services by SCLP. The reorganization had no impact on the consolidated financial statements. SAM LP is registered with the Ontario Securities Commission ("OSC") as 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 active management, consulting and administrative services to other companies. Currently SCLP provides these services to Sprott Resource Corp., Sprott Resource Lending Corp. ("SRLC") and Sprott Power Corp. ("SPC").

On February 4, 2011 we completed the acquisition of the Global Companies. The Global Companies consist of Rule Investments, Inc., Global Resource Investments, Ltd., Terra Resource Investment Management, Inc. and Resource Capital Investment Corporation. The Global Companies are based in Carlsbad, California. Effective February 4, 2011, the accounts of the Global Companies will be consolidated with those of the Company and will be reported on beginning with the Company's first quarter 2011 report.

Currently, the majority of the Company's revenues are earned through SAM LP in the form of Management Fees and Performance Fees earned through the management of the Funds and Managed Accounts; SPW LP earns most of its revenues via intercompany trailer fee payments from SAM LP (these intercompany fees are eliminated on consolidation) and from commissions earned on new and follow-on offerings of Funds managed by SAM LP and through various private placements. SPW LP provides us with a competitive advantage by providing a unique distribution channel for our Fund products and other investment opportunities that we are able to make available to our private clients; as well, it serves as a platform to brand and grow our wealth management business. SCLP earns the majority of its revenues through the management of its Managed Companies in the form of Management Fees and Performance Fees. SCLP enables us to benefit from our expertise in managing other companies, both public and private. SCLP provides us with a competitive advantage by providing SPW LP clients access to merchant banking and private equity-style investments.

While we have operated through three principal operating companies, all three are focused on growing the AUM of the Funds, Managed Accounts and Managed Companies that we manage for the benefit of the unitholders, shareholders and partners of those entities and thus for the benefit of our shareholders.

The most significant factor that drives our business results continues to be the performance of the assets that we manage. Absolute returns generate growth in AUM, and hence Management Fees while absolute and/or relative returns may result in the receipt of Performance Fees. While there are many factors that influence sales and redemptions of our Funds and Managed Accounts such as general investor sentiment towards certain asset classes and the global economic environment, past investment returns play an important part in an investment decision to buy, hold or sell a particular investment product.

The Company derives revenue primarily from Management Fees earned from the management of our Funds, Managed Accounts and Managed Companies and from Performance Fees earned from the investment of the AUM of our Funds, Managed Accounts and Managed Companies. 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, Managed Accounts and Managed Companies. 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, Managed Accounts and Managed Companies. As at December 31, 2010, we managed approximately $8.5 billion in assets among our various Funds, Managed Accounts and Managed Companies.

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 Funds and offshore Funds, while bullion Funds have the lowest rate of Management Fees. Fees for managing the various Managed Accounts and Managed Companies are negotiated on a case by case basis. Therefore, the weighting of AUM among our various Funds, Managed Accounts and Managed Companies impacts Management Fees as a percentage of AUM.

Commission income is specific to SPW LP and is generated from the sale of new and follow-on offerings of products or companies managed by SAM LP or SCLP and through private placements of unrelated companies to clients of SPW LP. This income is less predictable in nature and is generally negotiated on a case by case basis. Commissions income is recorded in the financial statements in the month in which the service is rendered.

Performance Fees are determined as of December 31 each year. However, Performance Fees are accrued in the relevant Funds, Managed Accounts and Managed Companies, as applicable, to properly reflect the Performance Fee that would be payable, if any, based on the Net Asset Value of that Fund, Managed Account or Managed Company. Where an investor redeems a domestic hedge Fund or an offshore Fund, any Performance Fee attributable to those units redeemed is paid to SAM LP as manager of the Funds. These 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. At SCLP, Performance Fees are generated from time-to-time and are usually based on monetizing events at the Managed Companies. These Performance Fees can be significant when realized.

Our most significant expenses include compensation and benefits and trailer fees. With respect to compensation and benefits, employees are paid a base salary and may be eligible to share in a bonus pool, with the size of such discretionary bonuses being tied to both 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. Both the employee bonus pool component of compensation and trailer fees are correlated with Management Fees whereas only the employee bonus pool component of compensation is correlated with Performance Fees. 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 Management Fees.

In 2009 we introduced a low load sales charge option for some of our Funds. The commissions for these sales have been financed from internal cash flow and have totaled approximately $1.0 million since late 2009. 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.

Business Highlights and Growth Initiatives

2010 was an extremely active year as we executed on various growth and development initiatives across the organization.

Acquisition of the Global Companies

On September 22, 2010, the Company announced the signing of a non-binding letter of intent ("LOI") reflecting an agreement in principle to acquire all of the outstanding stock of Rule Investments Inc. (the owner of Global Resource Investments Ltd.), Terra Resource Investment Management Inc. and Resource Capital Investments Corp. (collectively, the "Global Companies"). On February 4, 2011, the Company completed the acquisition.

As consideration, the Company issued 19,467,500 common shares from treasury valued at $168.8 million, excluding costs. The common shares of the Company issued as consideration were valued at $8.67 per share using the closing price of the Company's common shares on February 4, 2011. An additional 532,500 common shares of the Company will be provided to employees of the Global Companies during 2011. In addition, the seller and certain current and future employees of the Global Companies will be eligible to earn up to an additional 8 million common shares of the Company with the achievement of certain financial targets by the Global Companies over a period of up to five years.

The acquisition is expected to provide benefits across the Company, including the Global Companies through the sharing of intellectual capital, the development of new products, and by leveraging the Company's products and brands in the United States and internationally.

Effective February 4, 2011, the accounts of the Global Companies will be consolidated with those of the Company and will be reported on beginning with the Company's first quarter 2011 report. The Global Companies are experts in the natural resource investing sector providing both investment management and specialized broker services. The Global Companies are led by Rick Rule, a highly respected natural resources investor with over 35 years of experience in the investment industry, and have developed a highly specialized team of resource investing experts, including geologists and mining engineers. They offer their expertise through pooled investment vehicles, managed accounts and brokerage accounts and have delivered strong investment performance to their clients. The Global Companies are based in Carlsbad, California but invest globally. Together, as at December 31, 2010, the Global Companies administered approximately US $1.7 billion and managed approximately US $0.7 billion in client assets across three business lines.

Hiring and Retention of Top Talent

On September 7, 2010, Peter Grosskopf joined the Company as Chief Executive Officer, succeeding Eric Sprott in that role. Mr. Sprott assumed the position of Chairman of Sprott Inc. and Chief Investment Officer ("CIO") of SAM LP. While Mr. Grosskopf will be responsible for developing and implementing the overall strategy for the Company, this change allows Mr. Sprott to further focus on his role as CIO of SAM LP and portfolio manager for a number of our investment funds – investment performance continues to be a key priority for our business.

In recognition of Mr. Grosskopf's past accomplishments in the financial services industry and to acknowledge the future contributions of Mr. Grosskopf and Mr. Bambrough, the Company's President, Mr. Sprott personally agreed to fund a share incentive program through his personal holding company ("Holdco"). The program provided Mr. Grosskopf with 5 million common shares of the Company held by Holdco and Mr. Bambrough with 3 million common shares of the Company. With this transfer of 8 million common shares of the Company, Holdco's ownership stake was reduced by approximately 8%. The program was finalized at the end of 2010 and did not result in the issuance of any shares from treasury by the Company. For accounting purposes, the program resulted in a one-time non-cash charge of $25.7 million to earnings.

Product and Business Line Expansion

We continue to add products to better serve our clients and to take advantage of those opportunities that we have identified to generate returns to add value for our shareholders over time.

In March 2010, we completed the initial public offering of the Sprott Physical Gold Trust and in June 2010 and in September 2010 completed follow-on offerings of trust units, raising gross proceeds aggregating in excess of US$1.0 billion.

In January 2010, we launched our first flow-through fund, the Sprott 2010 Flow-Through Limited Partnership and in March 2010, a follow-on offering was completed, raising gross proceeds of $51 million in total.

In May 2010, we launched Sprott Private Credit Fund LP, an open-ended limited partnership for accredited investors.

In June 2010, a subsidiary of SCLP entered into a management services agreement with SPC after its initial capital raise of approximately $20 million. SPC is dedicated and committed to the development and financing of renewable energy projects.

In August 2010, we launched a suite of Fixed Income Funds comprised of Sprott Short-Term Bond Fund, Sprott Diversified Yield Fund and Sprott Absolute Return Income Fund.

In September 2010, a subsidiary of SCLP entered into a management services agreement with SRLC (formerly Quest Capital Corp.) (TSX:QC). SRLC completed a private placement of $25 million (the "Private Placement") and SPW LP acted as sole agent to SRLC on that Private Placement. The Company invested $14.4 million in the Private Placement and now owns 8,977,654 common shares of SRLC (or 5.8% of the outstanding shares). The balance of the Private Placement was purchased by SPW LP clients and employees of the Company and its affiliates. SRLC is executing on its plan to monetize its net real estate loans to generate additional resource lending assets in relation to which the subsidiary of SCLP may earn Management Fees and Performance Fees.

In October 2010, we launched Sprott Physical Silver Trust, raising gross proceeds of US$575 million.

In February 2011, SPC became a publicly listed company on the TSX after completing a merger with First Asset PowerGen Fund on January 31, 2011. On February 8, 2011, SPC acquired 100% of the shares of Sky Generation Inc. These transactions should generate additional development and financing opportunities of renewable energy projects from which the subsidiary of SCLP may earn Management Fees and Performance Fees.

In February 2011, we launched Sprott 2011 Flow-Through Limited Partnership, raising gross proceeds in excess of $90 million.

SPW LP provides an important distribution channel for our Funds' offerings and other investment opportunities. SPW LP has offered its clients the opportunity to participate in certain private placements including SPC and SRLC. Clients may also have the opportunity to participate in private placements by unrelated listed companies. Such offerings have the potential to add additional AUM or AUA within the group and SPW LP will usually receive selling commissions in respect of certain sales of these offerings.

The addition of these products, business lines and the acquisition of the Global Companies has required, and will require, us to make investments in technology, infrastructure and resources in order to continue to be able to provide effective and efficient service to our clients and to the Funds, Managed Accounts and Managed Companies that we manage. We have leased additional space contiguous to our existing premises in Toronto to accommodate the expansion of our various businesses and, with our acquisition of the Global Companies, maintain premises in Carlsbad, California.

Financial Highlights

Financial highlights for the year ended December 31, 2010 are:

- AUM at December 31, 2010 were $8.5 billion. This reflects an increase of $3.8 billion (79.0%) from $4.8 billion at December 31, 2009. Average AUM for 2010 was $5.9 billion compared to $4.5 billion in 2009, an increase of 30.7%. During the year ended December 31, 2010, market values increased by $2.3 billion, and together with positive net subscriptions of $1.5 billion, AUM increased by $3.8 billion.
- Management Fees for the year ended December 31, 2010 were $103.7 million, representing an increase of $15.7 million (17.8%) over the prior year.
- Performance Fees for the year ended December 31, 2010 of $200.1 million were $187.1 million or 1,441.1% higher than 2009.
- Base EBITDA for the year ended December 31, 2010 was $43.4 million representing an increase of $9.7 million or 28.8% compared with 2009.
- EBITDA for the year ended December 31, 2010 was $202.0 million or $153.5 million (316.8%) higher than 2009.
- Cash flow from operations for the year ended December 31, 2010 was $151.6 million ($1.01 per share) representing an

increase of $120.9 million (393.8%) from $30.7 million ($0.20 per share) for the year ended December 31, 2009.

- Net income for the year ended December 31, 2010 increased by 312.3% to $131.2 million, and represents earnings per share, on a basic and diluted basis, of $0.87. Net income for the year ended December 31, 2009 was $31.8 million, representing earnings per share, on a basic and diluted basis of $0.21.

Selected Annual Financial Information

As at December 31 (In $ 000's, except per share amounts)	2010	2009	2008
7			
Selected Key Performance Indicators			
Assets Under Management	**8,545,276**	4,773,789	4,448,708
Net Sales (Redemptions)	**1,448,419**	(571,153)	95,236
EBITDA	**201,961**	48,450	81,310
Base EBITDA	**43,384**	33,682	57,091
Cash Flow from Operations	**151,605**	30,683	50,533
EBITDA Per Share – basic and fully diluted	**1.35**	0.32	0.56
Base EBITDA Per Share – basic and fully diluted	**0.29**	0.22	0.39
Cash Flow From Operations Per Share – basic and fully diluted	**1.01**	0.20	0.35
Balance Sheet Information			
Total Assets	**342,037**	97,694	123,430
Total Liabilities	**128,414**	21,554	43,916
Shareholders' Equity	**213,623**	76,140	79,514
Income Statement Information			
Total Revenue	**323,025**	107,525	165,757
Net Income	**131,232**	31,830	52,136
Net Earnings Per Share – basic	**0.87**	0.21	0.36
Net Earnings Per Share – fully diluted	**0.87**	0.21	0.36

Summary Financial Information

Summary Balance Sheet

(In $ 000's, except per share amounts)	December 31, 2010	December 31, 2009
Total Assets	**342,037**	97,694
Total Liabilities	**128,414**	21,554
Shareholders' Equity	**213,623**	76,140

Summary Income Statement and Reconciliation to EBITDA and Base EBITDA

(In $ 000's, except per share amounts)	For the year ended December 31, 2010	For the year ended December 31, 2009
Revenue		
Management fees	103,686	88,023
Performance fees	200,054	12,981
Unrealized and realized gains on proprietary investments	8,537	5,032
Commissions	6,211	80
Other income	4,537	1,409
Total revenue	323,025	107,525
Expenses		
Compensation and benefits	83,664	27,998
Stock-based compensation	28,001	2,296
Trailer fees	21,649	19,191
General and administrative	13,369	10,743
Donations	2,382	1,143
Amortization	933	992
Total expenses	149,998	62,363
Income before income taxes	173,027	45,162
Provision for income taxes	41,795	13,332
Net income and comprehensive income	131,232	31,830
Other expenses [1]	28,934	3,288
Provision for income taxes	41,795	13,332
EBITDA	201,961	48,450
Unrealized and realized gains on proprietary investments	(8,537)	(5,032)
Performance fees net of performance fee related compensation and other performance fee related expenses [2]	(150,040)	(9,736)
Base EBITDA	43,384	33,682
Base EBITDA Per Share – basic and fully diluted	0.29	0.22
EBITDA Per Share – basic and fully diluted	1.35	0.32
Net Earnings Per Share – basic	0.87	0.21
Net Earnings Per Share – fully diluted	0.87	0.21

1 Includes amortization of property and equipment, amortization of deferred sales charges and non-cash stock-based compensation expense.

2 Performance Fee related compensation is equal to 25% of Performance Fee revenue.

Summary Cash Flow Statements and Reconciliation to Cash Flow from Operations

(In $ 000's, except per share amounts)	For the year ended December 31, 2010	For the year ended December 31, 2009
Operating activities		
Net income for the year	**131,232**	31,830
Non-cash items	**20,373**	(1,147)
Cash flow from operations	**151,605**	30,683
Non-cash balances relating to operations	**(90,520)**	(23,496)
Cash provided by operating activities	**61,085**	7,187
Cash used in investing activities	**(7,136)**	(10,565)
Cash used in financing activities	**(21,750)**	(37,500)
Net increase (decrease) in cash and cash equivalents during the year	**32,199**	(40,878)
Cash and cash equivalents, beginning of the year	**49,010**	89,888
Cash and cash equivalents, end of the year	**81,209**	49,010
Cash Flow From Operations Per Share – basic	**1.01**	0.20
Cash Flow From Operations Per Share – fully diluted	**1.01**	0.20

Results of Operations

Year ended December 31, 2010 compared to year ended December 31, 2009

Overall Performance

AUM increased to $8.5 billion at December 31, 2010 compared with $4.8 billion at December 31, 2009. Net sales for the year ended December 31, 2010 were $1.5 billion and combined with market value appreciation of $2.3 billion resulted in a $3.8 billion increase in AUM for the year. Monthly average AUM for the year ended December 31, 2010 was $5.9 billion compared with $4.5 billion in 2009, an increase of 30.7%.

Total revenues increased by $215.5 million or 200.4% from $107.5 million in the year ended December 31, 2009 to $323.0 million in the year ended December 31, 2010. Management fees for the year ended December 31, 2010 were $103.7 million, representing an increase of $15.7 million (17.8%) over the comparative year ended December 31, 2009. Performance fees were $187.1 million higher for the year ended December 31, 2010 when compared to the prior year. Unrealized and realized gains on proprietary investments were $3.5 million higher for the year ended December 31, 2010 when compared to the prior year. Selling commissions increased significantly to $6.2 million in 2010 when compared to $0.1 million in 2009. Other income increased by $3.1 million to $4.5 million in 2010, when compared to 2009.

Expenses totaled $150.0 million for the year ended December 31, 2010, which is an increase of $87.6 million or 140.5% from $62.4 million in the year ended December 31, 2009.

Net income of $131.2 million for the year ended December 31, 2010 increased by $99.4 million or 312.3% when compared with net income of $31.8 million for the year ended December 31, 2009.

Assets Under Management, Investment Performance and Net Sales

The breakdown of AUM by investment product type as at December 31, 2010 and December 31, 2009 was as follows:

	December 31, 2010		December 31, 2009	
Product Type	$ (in millions)	% of AUM	$ (in millions)	% of AUM
Mutual Funds	**3,372**	**39.5%**	2,305	48.3%
Bullion Funds	**2,025**	**23.7%**	96	2.0%
Domestic Hedge Funds	**1,739**	**20.3%**	1,408	29.5%
Offshore Funds	**686**	**8.0%**	507	10.6%
Managed Companies	**513**	**6.0%**	315	6.6%
Managed Accounts	**210**	**2.5%**	143	3.0%
Total	**8,545**	**100%**	4,774	100%

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

($ millions)	Year ended December 31, 2010	Year ended December 31, 2009
AUM, beginning of year	4,774	4,449
Net sales (redemptions)	1,448	(571)
Market value appreciation of portfolios	2,323	896
AUM, end of year	**8,545**	**4,774**

Performance of our Funds, Managed Accounts and Managed Companies for the year ended December 31, 2010 resulted in AUM increasing by $2.3 billion or 48.7% of opening AUM. All but the smallest of our Funds, Managed Accounts and Managed Companies generated positive performance. Most of our Funds, Managed Accounts and Managed Companies posted strong performance results on both an absolute and on a relative basis for the year ended December 31, 2010.

Net sales for the year ended December 31, 2010 were $1.5 billion. The launch of Sprott Physical Gold Trust, Sprott Physical Silver Trust, Sprott 2010 Flow-Through LP, Sprott Private Credit Fund LP and our Fixed Income Funds added approximately $1.7 billion to sales for the year. Collectively, our other mutual Funds and hedge Funds experienced net redemptions of approximately $0.2 billion for the year ended December 31, 2010. Some of our offshore Funds had net subscriptions while others experienced net redemptions, resulting in net outflows of approximately $13 million for the year ended December 31, 2010 (2.6%) of opening offshore AUM. SRLC added approximately $100 million to the AUM of Managed Companies during the year.

Revenues

During 2010, total revenues increased by $215.5 million (200.4%) from $107.5 million in 2009 to $323.0 million in 2010.

Management Fees increased by $15.7 million or 17.8% from $88.0 million in 2009 to $103.7 million in 2010, as monthly average AUM increased by approximately 30.7% over the same period. Management Fee margins (defined as Management Fees as a percentage of average AUM) fell to 1.77% in 2010 from 1.96% in 2009. The decrease in Management Fee margins is mainly due to an increase in 2010 of approximately $1.9 billion (2009- $0.1 billion) in bullion Funds, which have lower Management Fees than most of our other Funds.

Performance Fees for the year ended December 31, 2010 were $200.1 million when compared to $13.0 million in the prior year. In 2009, Performance fees were generated mainly by hedge Funds, and offshore Funds. In 2010, Performance Fees were generated mainly by hedge Funds and offshore Funds with contributions by a few mutual Funds and Managed Accounts. During 2010, more Funds and Managed Accounts contributed to generating Performance Fees than in 2009. In addition, during 2010, several of the contributing Funds and Managed Accounts that previously had carry-forward return deficiencies, recaptured these deficiencies and began accruing Performance Fees.

Gains from our capital that is invested in our proprietary investments (realized and unrealized) totaled $8.5 million for

the year ended December 31, 2010. This is an increase of $3.5 million from the previous year where gains from our proprietary investments totaled $5.0 million. During the year ended December 31, 2010, sales of proprietary investments resulted in a net realized gain of $0.4 million and the market value of proprietary investments appreciated by $8.1 million. The unrealized gains in 2010 were driven by market appreciation in virtually all of the Company's proprietary investments, with the majority being generated by the Company's investment in SRLC, a public company investment in the resource sector, gold bullion and silver bullion and an option. The realized gains in 2010 were primarily due to the sale of publicly traded equities in the gold sector. During the year ended December 31, 2009, the sale of proprietary investments resulted in a net realized gain of $2.3 million mainly from the reorganization of Sprott Molybdenum Participation Corporation.

Commissions revenue for the year ended December 31, 2010, was $6.2 million compared to approximately $0.1 million during the prior year. The significant increase in commissions revenue was mainly due to commissions earned by SPW LP on the sale of units of SPC, Sprott Flow-Through LP, Sprott Physical Gold Trust, Sprott Physical Silver Trust, SRLC and Sprott Private Credit Fund LP to SPW LP clients in 2010.

Other income increased by $3.1 million from $1.4 million in the year ended December 31, 2009 to $4.5 million in the year ended December 31, 2010. In 2010, the main components of other income were: interest income of $3.8 million, early redemption fees of $0.5 million and dividends of $0.5 million partially offset by a foreign exchange loss of $0.3 million. In 2009, other income consisted primarily of interest income of $1.1 million and early redemption fees of $0.7 million partially offset by a foreign exchange loss of $0.4 million.

Expenses

Total expenses for the year ended December 31, 2010 were $150.0 million, an increase of $87.6 million or 140.5%, compared with $62.4 million for 2009. The increase in the current year is mainly attributable to an increase in compensation and benefits of $55.7 million, an increase in stock-based compensation of $25.7 million, trailer fees of $2.4 million, general and administrative costs of $2.6 million, and donations expense of $1.2 million.

Changes in specific categories are described in the following discussion:

Compensation & Benefits

Compensation and benefits expense for the year ended December 31, 2010 amounted to $83.7 million, including contributions to the discretionary employee bonus pool of $60.5 million. For the year ended December 31, 2009, compensation and benefits expense was $28.0 million, with contributions to the discretionary employee bonus pool amounting to $13.2 million. Excluding the discretionary employee bonus pool, compensation and benefits increased by $8.4 million (56.8%) from $14.8 million in 2009 to $23.2 million in 2010. This is primarily due to the increase in headcount of the Company with the average number of employees increasing from 80 in 2009 to 95 in 2010 and to variable employee compensation payments associated with the commission revenues discussed under the "Revenues" section of this MD&A. The increase in the discretionary employee bonus pool of $47.3 million (358.3%) from $13.2 million in 2009 to $60.5 million in 2010 is a result of both higher net operating income and, more significantly, higher Performance Fees in 2010.

Stock-based compensation

Stock-based compensation was $28.0 million for the year ended December 31, 2010, an increase of $25.7 million, compared to $2.3 million in 2009. The increase from 2009 is the result of a share incentive program personally funded by Mr. Sprott for the benefit of the Company's new Chief Executive Officer and the Company's President (the "Executives"). This program provided the Executives with a total of 8 million common shares of the Company from Mr. Sprott's personal holding company and did not result in the issuance of shares from treasury by the Company. This transaction was valued at $25.7 million reflecting the maximum benefit conferred to the Executives as a result of the arrangement and has been fully expensed in 2010 with a corresponding increase to contributed surplus.

Trailer Fees

Trailer fees are somewhat correlated with AUM and with Management Fees. For the year ended December 31, 2010 trailer fees of $21.6 million were 12.8% higher than trailer fees of $19.2 million in 2009. Trailer fees as a percentage of Management Fees for the year ended December 31, 2010 have decreased to 20.9% from 21.8% for the year ended December 31, 2009. This decline is mainly due to the increase

in AUM of bullion Funds and the new Fixed Income Funds, which pay no or low trailer fees.

General & Administrative

General and administrative expenses increased by $2.6 million, or 24.4% to $13.4 million for the year ended December 31, 2010 when compared to 2009. General and administrative expenses consist primarily of rent, marketing, regulatory fees, fund related costs, legal and professional fees as well as miscellaneous costs such as quote and news services, printing and system maintenance. The increase in general and administrative expenses in 2010 is mainly due to the investment of resources associated with the due diligence of the Global Companies, the acquisition of which closed on February 4, 2011. The Company also experienced increases in its other general office expenses as a result of the increased headcount during 2010. In 2010, the Company launched Sprott Private Credit Fund LP and retained a third party to provide the investment advisory services. The external investment advisory service was a new expense in 2010 for the Company. The Company also absorbed more expenses incurred by some of the Funds that it manages in 2010 as compared with 2009.

Charitable Donations

The Board of Directors of SAMI approved a charitable donations program which became effective in fiscal 2008. Under this program, the amount of charitable donations made each year is 1% 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 order to better match the charitable donations expense with the associated income, the Company changed the donation calculation methodology. Previously the charitable donation accrual was calculated on 1% of previous year's pre tax income. For 2010, we accrued 1% of current year's income before taxes. 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 2010 than in 2008 and as a result, the expense for charitable donations is higher in 2010 than in 2009.

Amortization

Amortization expense is composed of amortization of property and equipment and amortization of deferred sales commissions. Amortization expense is slightly lower in 2010 when compared to 2009 due to lower amortization of property and equipment that was almost fully offset by an increase in amortization of deferred sales commissions. The Company invested $0.2 million in property and equipment in 2010 versus $0.6 million in 2009. The Company invested $0.9 million in deferred sales commissions in 2010 versus $0.1 million in 2009.

EBITDA, Base EBITDA, Cash Flow from Operations and Net Income

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

EBITDA allows us to assess our ongoing business without the impact of interest expense, income taxes and certain non-cash expenses, such as amortization and stock-based compensation. EBITDA is an indicator of our ability to pay dividends, invest in our business and continue operations.

For the year ended December 31, 2010, EBITDA was $202.0 million compared with $48.5 million for the year ended December 31, 2009. The increase in EBITDA in 2010 when compared to 2009 is mainly a result of higher Management Fees, significantly higher Performance Fees, higher gains on proprietary investments and commissions generated by SPW LP, partially offset by higher trailer fees, general and administrative expenses, donations and compensation and benefits. EBITDA per share for 2010 was $1.35 versus $0.32 for 2009. For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table earlier 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. For the year ended December 31, 2010 Base EBITDA was $43.4 million compared with $33.7 million in 2009, representing an increase of 28.8%. Base EBITDA for 2010 increased when compared to 2009 based predominantly on higher Management Fees. Base EBITDA excludes (i) unrealized and realized gains on proprietary investments and (ii) Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses. In 2010, unrealized and realized gains on proprietary investments were $8.5 million versus $5.0 million in 2009. In 2010, Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses were $150.0 million compared to $9.7 million in 2009. Base EBITDA per share for 2010 was $0.29 versus $0.22 for 2009. For further clarity, Base EBITDA is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

The Company also assesses its performance using Cash Flow from Operations. Previously defined in this MD&A, this

metric helps to assess the ability of the Company to generate cash to fund day-to-day operations, pay dividends, pay sales commissions and support any other capital requirements of the Company.

Cash Flow from Operations for 2010 was $151.6 million, up significantly from $30.7 million in 2009. Similar to EBITDA and Base EBITDA, the primary contributor to this was the increase in Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses. A significant difference between this measure and EBITDA and Base EBITDA is that it takes into consideration the income taxes paid or payable by the Company. In 2009, the provision for income taxes was $13.3 million and in 2010, the provision for income taxes was $41.8 million. Cash Flow from Operations per share for 2010 was $1.01 versus $0.20 for 2009. For further clarity, Cash Flow from Operations is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

Income before taxes for the year ended December 31, 2010 was $173.0 million compared with a pre-tax net income of $45.2 million for the year ended December 31, 2009. The effective tax rate at 24.16% was lower for 2010 when compared to 29.52% for 2009. The difference between the statutory and effective rate is mostly from the combination of non-taxable foreign affiliate income and the non-taxable portion of capital gains and unrealized capital gains offset slightly by the non-taxable stock-based compensation expense.

Net income for the year ended December 31, 2010 was $131.2 million compared to net income of $31.8 million for year ended December 31, 2009. The increases in Management Fee revenue and Performance Fees offset partially by increased compensation and benefits, stock-based compensation and income taxes were the major contributors to the $99.4 million change year over year. Net income per share, both basic and fully diluted, for 2010 was $0.87 versus $0.21 for 2009.

Balance Sheet

Total assets at December 31, 2010 of $342.0 million are $244.3 million more than at December 31, 2009. Cash and cash equivalents of $81.2 million were $32.2 million higher than at December 31, 2009 due to cash inflows, including higher Management Fees, the monetization of prior year accrued Performance Fees and the collection of commissions by SPW LP that more than offset the cash out flow from the net purchase of certain proprietary investments, operating expenses, payment of bonuses and dividends.

Proprietary investments are discussed in more detail in the Revenue section of this MD&A.

Fees receivable at December 31, 2010 were $209.1 million, which is $196.3 million higher than at December 31, 2009 as fee receivables include approximately $197 million of year end Performance Fees that were received in early 2011. Other long-term assets as at December 31, 2010 consist of deferred sales commissions and intangible assets with indefinite useful lives, relating to certain costs incurred to create management services contracts between SAM LP and certain Funds managed by SAM LP.

Accounts payable and accrued liabilities were $17.0 million at December 31, 2010, which is $12.5 million higher than at December 31, 2009. This increase primarily reflects the obligation by the Company to remit Harmonized Sales Tax to the Government of Canada that was due as a result of Performance Fees charged to certain Funds and Managed Accounts.

Compensation and employee bonuses payable were $61.6 million at December 31, 2010 compared to $9.2 million at December 31, 2009. The calculation of this number is correlated to net income.

Dividends

In the first quarter of 2010, the Company recorded a special dividend in the amount of $0.04 per common share. The special dividend related to Performance Fees received for 2009.

Regular dividends of $0.025 per common share were paid to shareholders of record at the close of business on March 1, 2010, on May 21, 2010 and September 7, 2010.

In November 2010, a dividend of $0.03 per common share was declared for the quarter ended September 30, 2010 and was paid to shareholders of record at the close of business on December 6, 2010.

On January 10, 2011, a special dividend in the amount of $0.60 per common share was declared. The special dividend related to Performance Fees received for 2010 and was paid to shareholders of record at the close of business on February 3, 2011.

On March 22, 2011, the Company declared a second special dividend of $0.12 per common share related to Performance Fees received for 2010. The shares issued from treasury on February 4, 2011 as a result of the acquisition of the Global Companies are not eligible to receive this dividend.

On March 22, 2011, the Company declared a dividend of $0.03 per common share for the quarter ended December 31, 2010. The shares issued from treasury on February 4, 2011 as a result of the acquisition of the Global Companies are not eligible to receive this dividend.

Capital Stock

There was no change in the capital stock of the Company during 2010. The capital stock remained at $40.1 million with 150,000,000 common shares issued and outstanding. As at March 22, 2011, there were 169,467,500 common shares issued and outstanding as a result of the acquisition of the Global Companies.

On February 4, 2011, the Company completed its acquisition of the Global Companies which resulted in the issuance of 19,467,500 common shares from treasury valued at $168.8 million. An additional 532,500 common shares of the Company will be provided to employees of the Global Companies during 2011.

Earnings per share as at December 31, 2010 and December 31, 2009 have been calculated using the weighted average number of shares outstanding during the respective periods. Basic and diluted earnings per share were $0.87 for the year ended December 31, 2010 and $0.21 for the year ended December 31, 2009.

A total of 2,650,000 stock options have been issued pursuant to our incentive stock option plan. In the first quarter of 2010, 100,000 options were cancelled and 50,000 new options were granted. In the fourth quarter of 2010, 150,000 new options were granted, bringing the stock option balance to 2,650,000 options outstanding. As at December 31, 2010, 1,633,000 of those stock options were exercisable.

Summary of Quarterly Results

The following is the summary of quarterly results of the Company for the eight most recently completed quarters.

Summary Income Statements and Reconciliation to EBITDA and Base EBITDA

($ in thousands, except per share amounts)	3 Months ending 31-Mar-09	3 Months ending 30-Jun-09	3 Months ending 30-Sep-09	3 Months ending 31-Dec-09	3 Months ending 31-Mar-10	3 Months ending 30-Jun-10	3 Months ending 30-Sep-10	3 Months ending 31-Dec-10
Assets Under Management	4,724,653	4,444,146	4,338,422	4,773,789	5,155,224	5,546,430	6,513,445	8,545,276
Income Statement Information								
Revenue								
Management fees	22,596	21,673	20,702	23,052	23,248	24,212	24,692	31,534
Performance fees	1,810	405	152	10,614	–	196	719	199,139
Unrealized and realized gain (loss) on proprietary investments	2,143	767	657	1,465	(897)	1,132	2,852	5,450
Commissions	21	8	28	23	2,586	444	340	2,841
Other income	86	239	492	592	325	800	487	2,925
Total revenue	26,656	23,092	22,031	35,746	25,262	26,784	29,090	241,889
Expenses								
Compensation and benefits	7,125	6,540	5,638	8,695	7,700	6,967	7,482	61,515
Stock-based compensation	574	574	574	574	567	567	567	26,300
Trailer fees	4,589	4,831	4,672	5,099	5,070	5,143	5,099	6,337
General and administrative	3,040	2,794	2,620	2,290	2,611	2,974	2,637	5,249
Donations	284	292	285	282	458	171	173	1,580
Amortization	216	223	197	355	172	186	193	280
Total Expenses	15,828	15,254	13,986	17,295	16,578	16,008	16,151	101,261
Income before income taxes	10,828	7,838	8,045	18,451	8,684	10,776	12,939	140,628
Provision for income taxes	3,407	2,248	2,539	5,138	2,759	3,100	3,340	32,596
Net Income	7,421	5,590	5,506	13,313	5,925	7,676	9,599	108,032
Other expenses	790	797	771	930	759	788	807	26,580
Provision for income taxes	3,407	2,248	2,539	5,138	2,759	3,100	3,340	32,596
EBITDA	11,618	8,635	8,816	19,381	9,443	11,564	13,746	167,208
Unrealized and realized (gains) losses on proprietary investments	(2,143)	(767)	(657)	(1,465)	897	(1,132)	(2,852)	(5,450)
Performance fees net of performance fee-related compensation and other performance fee related expenses	(1,357)	(304)	(114)	(7,961)	–	(147)	(539)	(149,354)
Base EBITDA	8,118	7,564	8,045	9,955	10,340	10,285	10,355	12,404
Basic and diluted earnings per share	0.05	0.04	0.03	0.09	0.04	0.05	0.06	0.72

* Average of month-end AUM

Summary Cash Flow Statements and Reconciliation to Cash Flow from Operations

(In $ 000's, except per share amounts)	3 Months ending 31-Mar-09	3 Months ending 30-Jun-09	3 Months ending 30-Sep-09	3 Months ending 31-Dec-09	3 Months ending 31-Mar-10	3 Months ending 30-Jun-10	3 Months ending 30-Sep-10	3 Months ending 31-Dec-10
Operating activities								
Net income for the quarter	7,421	5,590	5,506	13,313	5,925	7,676	9,599	108,032
Non-cash items	(1,072)	(390)	330	(15)	2,050	(163)	(1,683)	20,067
Cash flow from operations	6,349	5,200	5,836	13,298	7,975	7,513	7,916	128,099
Non-cash balances relating to operations	(9,283)	(10,756)	586	(4,043)	8,683	4,077	3,488	(107,209)
Cash provided by operating activities	(2,934)	(5,556)	6,422	9,255	16,658	11,590	11,404	20,890
Cash used in investing activities	(6,739)	(11,251)	7,104	321	(384)	1,619	(19,877)	12,049
Cash used in financing activities	(3,750)	(26,250)	(3,750)	(3,750)	(9,750)	(3,750)	(3,750)	(4,500)
Net increase (decrease) in cash and cash equivalents during the quarter	(13,423)	(43,057)	9,776	5,826	6,524	9,459	(12,223)	28,439
Cash and cash equivalents, beginning of the quarter	89,888	76,465	33,408	43,184	49,010	55,534	64,993	52,770
Cash and cash equivalents, end of the quarter	76,465	33,408	43,184	49,010	55,534	64,993	52,770	81,209
Cash flow from operations per share – basic	0.04	0.03	0.04	0.09	0.05	0.05	0.05	0.85
Cash flow from operations per share – fully diluted	0.04	0.03	0.04	0.09	0.05	0.05	0.05	0.85

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

In the fourth quarter of 2010, Performance Fees in the amount of $199.1 million were accrued. In the fourth quarter of 2009, total Performance Fees of $10.6 million were recorded. Of the $199.1 million (2009 – $10.6 million), $192.8 million (2009 – $10.6 million) of Performance Fees were generated from Funds, $6.3 million (2009 – $nil) from Managed Accounts and $nil (2009 – $nil) from Managed Companies.

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

The fourth quarter of 2010 saw AUM increasing by $2,032 million from $6,513 million at September 30, 2010 to $8,545 million at December 31, 2010. The increase reflected a combination of net sales of $573 million and net market value appreciation of the Funds, Managed Accounts and Managed Companies of $1,459 million. Most of the total net sales for the quarter related to the launch of the Sprott Physical Silver Trust.

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 collected monthly or quarterly and to a lesser extent, annually, 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. Subsequent to the year-end, we established a revolving term credit facility with a Canadian chartered bank in the amount of $50 million.

SPW LP is a member of IIROC and a registered investment dealer and SAM LP is an OSC registrant in the category of PM and EMD, and as such each of SPW LP and SAM LP is required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of IIROC and of the OSC, respectively. During the year ended December 31, 2010, SAM LP and SPW LP were in compliance with the specified capital requirements.

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-based compensation and the 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. 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 loans and receivables. 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 certain available for sale and loans and receivables 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, proprietary investments (excluding gold and silver bullion), fees receivable, other current assets, accounts payable and accrued liabilities and compensation and employee bonuses payable. All proprietary investments considered financial instruments are recorded on the balance sheet at their fair values except for proprietary investments in private equities which are recorded at cost less any impairment.

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.

Changes in Accounting Policies

Effective December 31, 2010, the Company elected to early adopt as of January 1, 2010 three CICA Handbook sections as a result of the acquisition of the Global Companies. Specifically, CICA Handbook Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interest* were adopted with no material impact to the Company's audited consolidated financial statements. These Handbook Sections are converged with International Financial Reporting Standards. In accordance with the transitional provisions, these Handbook Sections were applied on a prospective basis, from January 1, 2010 with the exception of the presentation and disclosure requirements for non-controlling interests which were applied retrospectively.

Future accounting changes

International Financial Reporting Standards ("IFRS")

The use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace Canadian GAAP 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 implemented an IFRS changeover plan and completed a preliminary analysis of transition impacts in 2009. We engaged an independent accounting firm to assist us with the IFRS changeover analysis and plan. Our IFRS conversion plan addresses matters including changes in accounting policy, the restatement of comparative periods, organizational and internal control, training and awareness of staff in addition to other related business matters. Overall responsibility for the implementation and success of the conversion plan rests with the Company's senior financial management who report to and are overseen by the Audit Committee.

We have determined that the transition to IFRS would not have a material impact on the financial statements of the Company. During 2010, the Company continued monitoring new standards and amendments to existing standards and concluded there are no new standards or amendments to existing IFRS standards that will alter the previous guidance issued by the Company for its upcoming first quarterly report under IFRS.

The Company intends to make the following policy choices under IFRS 1 *First time adoption of IFRS*:

- IFRS 3 *Business Combinations* will not be applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010, which means that all past business combinations will not be restated.
- IFRS 2 *Share-based Payments* will not be applied to equity instruments that were granted on or before November 7, 2002, nor will it be applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.
- Financial assets classified as available-for-sale under Canadian GAAP will be re-designated as fair value through profit or loss under IAS 39 *Financial Instruments – Recognition and Measurement*. These financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy.

The Company expects the following adjustments to its financial statements as a result of transition to IFRS:

- The value of proprietary investments will increase by approximately $250 thousand as at January 1, 2010 as a result of re-designating financial assets classified as available-for-sale under Canadian GAAP at fair value through profit or loss under IAS 39. The impact of this adjustment is not material to either the opening balance sheet or 2010 net income.
- For equity instruments, such as stock options, the timing of expense recognition differs between Canadian GAAP and IFRS. While the total stock option expense calculation is similar under the two sets of standards, under IFRS, the expense is recognized on a graded vesting schedule as compared with straight line vesting under Canadian GAAP. This will result in a larger portion of the expense being recognized earlier in the vesting period. Since the Company intends to make an election under IFRS for equity instruments that vested before January 1, 2010, the difference only impacts stock options that vest after this date. An adjustment will be recorded as at January 1, 2010 to account for the difference. This adjustment is not material, since it is a reclassification between contributed surplus and opening retained earnings. The adjustment for existing equity instruments will not have a material impact on 2010 net income to date. For the share incentive program granted to Mr. Grosskopf and Mr. Bambrough in 2010 (see Business Highlights and Growth Initiatives earlier in this MD&A) by Mr. Sprott personally, the accounting treatment adopted for GAAP in these audited consolidated financial

statements will not change after the adoption of IFRS effective January 1, 2011.

In addition to policies discussed above, as part of its IFRS changeover plan, the Company identified other potential high and medium impact areas, including consolidation of the various Funds managed by SAM LP and Managed Companies by SCLP, recognition of intangible assets and accounting for property and equipment.

- Consolidation of the various Funds managed by SAM LP has been noted as high impact because any requirement to consolidate the Funds that we manage with the Company's balance sheet and statements of income and cash flows would have a material impact on the consolidated financial statements. After a detailed analysis, it was determined that currently the Company is not required to consolidate Funds managed by SAM LP under IFRS. Similarly, it was determined that the Company is not required to consolidate Managed Companies managed by SCLP under IFRS.
- Intangible assets recognition and measurement criteria are similar under Canadian GAAP and IFRS; therefore, no material differences were identified.
- There are certain differences in accounting for property and equipment under IFRS and Canadian GAAP. After a review of the Company's property and equipment, it was determined that no material adjustments will be required.
- There are a number of disclosure differences that exist between Canadian GAAP and IFRS. Since these are disclosure items, they are not expected to have a material impact on the Company's financial statements.

Related Party Transactions

Most of the artwork displayed in our office area was rented from Mr. Sprott, Chairman 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.

In September 2010, Mr. Sprott, Chairman of the Company, personally funded a share incentive program through his personal holding company. The program provided Mr. Grosskopf and Mr. Bambrough with a total of 8 million common shares of the Company. This arrangement did not result in the issuance of common shares from the treasury of the Company. See note 6(b) of the Company's audited consolidated financial statements for additional information.

Managing Risk

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 continuity plans; entering new lines of business; fluctuations in Performance Fees; rapid growth or decline in our AUM; insufficient insurance coverage; possible volatility of the share price; and control by a principal shareholder.

We have processes and procedures in place to monitor and mitigate these risks to the extent reasonable and practicable within the framework of our overall strategic objectives of delivering excellence in investment performance.

Certain key risks are managed as described below:

Market Risk

We monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risk resulting from the nature of our business. In SAM LP, at the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies. At SPW LP, we manage risk at the asset allocation level, by focusing on mitigating risk through the appropriate selection and weighting of portfolio investments for each client to reflect their suitability and risk tolerance.

Internal Controls and Procedures

Both SAM LP and SPW LP operate in a regulated environment and are subject to business conduct rules and other rules and regulations. We have internal control policies related to our business conduct. They include controls required to ensure compliance with the rules and regulations of relevant regulatory bodies including the OSC and 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 GAAP.

Consistent with *National Instrument 52-109*, the Company's CEO and CFO have evaluated the DC&P and ICFR as of December 31, 2010 and concluded that the controls have been properly designed and are operating effectively.

There was no change in the Company's internal control over financial reporting that occurred during fiscal 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control 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 before they are permitted to buy or sell securities. Speculative trading is strongly discouraged. While employees are permitted to have investments managed by third parties on a discretionary basis, they generally choose to invest in the Funds. All of our employees must comply with our Code of Ethics. This Code establishes strict rules for professional conduct and management of conflicts of interest.

Independent Review Committee

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

Confidentiality of Information

We believe that confidentiality is essential to the success of our business, and we strive to consistently maintain the highest standards of trust, integrity and professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties. We keep the affairs of our clients confidential and do not disclose the identities of our clients (absent express client consent to do so). If a prospective client requests a reference, we will not furnish the name of an existing client before receiving permission from that client to reveal their business relationship with us.

Insurance

We maintain appropriate insurance coverage for general business and liability risks as well insurance coverage required by regulation. We review our insurance coverage periodically to ensure continued adequacy.

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

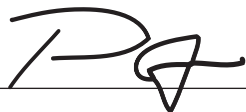
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements, which consolidate the financial results of Sprott Inc. (the "Company"), were prepared by management, who are responsible for the integrity and fairness of all information presented in the consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2010. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Financial information presented in the MD&A is consistent with that in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in note 2 of the consolidated financial statements. Management maintains a system of internal controls to meet its responsibilities for the integrity of the consolidated financial statements.

The board of directors (the "Board of Directors") of the Company appoints the Company's audit committee (the "Audit Committee") annually. Among other things, the mandate of the Audit Committee includes the review of the consolidated financial statements of the Company on a quarterly basis and the recommendation to the Board of Directors for approval. The Audit Committee has access to management and the auditors to review their activities and to discuss the external audit program, internal controls, accounting policies and financial reporting matters.

Ernst & Young LLP performed an independent audit of the consolidated financial statements, as outlined in the auditors' report contained herein. Ernst & Young LLP had, and has, full and unrestricted access to management of the Company, the Audit Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.



Peter Grosskopf
Chief Executive Officer

Steven Rostowsky
Chief Financial Officer

March 22, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sprott Inc.

We have audited the accompanying consolidated financial statements of Sprott Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 22, 2011

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ in thousands)	2010 $	2009 $
Assets		
Current		
Cash and cash equivalents	**81,209**	49,010
Fees receivable	**209,078**	12,751
Other assets	**2,025**	2,248
Total current assets	**292,312**	64,009
Proprietary investments (*Note 3*)	**41,884**	28,004
Future income tax asset (*Note 11*)	**1,935**	1,289
Property and equipment, net (*Note 4*)	**3,705**	4,298
Other long-term assets (*Note 5*)	**2,201**	94
	49,725	33,685
Total assets	**342,037**	97,694
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**17,010**	4,546
Compensation and employee bonuses payable	**61,644**	9,192
Income taxes payable	**47,991**	7,323
Total current liabilities	**126,645**	21,061
Future income tax liability (*Note 11*)	**1,769**	493
Total liabilities	**128,414**	21,554
Shareholders' equity		
Capital stock (*Note 6*)	**40,105**	40,105
Contributed surplus (*Note 6*)	**31,821**	3,820
Retained earnings	**141,697**	32,215
Total shareholders' equity	**213,623**	76,140
Total liabilities and shareholders' equity	**342,037**	97,694

See accompanying notes

Subsequent Events (Note 16)

On behalf of the Board

Eric Sprott
Director,
Chairman

James Roddy
Director,
Chair of Audit Committee

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

For the years ended December 31 ($ in thousands, except for per share amounts)	2010 $	2009 $
Revenue		
Management fees	103,686	88,023
Performance fees	200,054	12,981
Unrealized and realized gains on proprietary investments	8,537	5,032
Commissions	6,211	80
Other income	4,537	1,409
Total revenue	323,025	107,525
Expenses		
Compensation and benefits	83,664	27,998
Stock-based compensation *(Note 6)*	28,001	2,296
Trailer fees	21,649	19,191
General and administrative	13,369	10,743
Donations	2,382	1,143
Amortization	933	992
Total expenses	149,998	62,363
Income before income taxes for the year	173,027	45,162
Provision for income taxes *(Note 11)*	41,795	13,332
Net income and comprehensive income for the year	131,232	31,830
Retained earnings, beginning of the year	32,215	37,885
Dividends declared	(21,750)	(37,500)
Retained earnings, end of the year	141,697	32,215
Basic and diluted earnings per share *(Note 10)*	$ 0.87	$ 0.21

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in thousands)	2010 $	2009 $
Operating Activities		
Net income for the year	131,232	31,830
Add (deduct) non-cash items:		
Unrealized and realized gains on proprietary investments	(8,537)	(5,032)
Stock-based compensation	28,001	2,296
Amortization of property and equipment	757	988
Amortization of deferred sales commissions	176	4
Future income taxes	630	685
Other items	(654)	(88)
	151,605	30,683
Fees receivable	(196,327)	806
Other assets	223	(1,448)
Accounts payable and accrued liabilities	12,464	(1,079)
Compensation and employee bonuses payable	52,452	(12,618)
Income taxes payable	40,668	(9,157)
Cash provided by operating activities	61,085	7,187
Investing Activities		
Purchase of proprietary investments	(25,432)	(25,226)
Sale of proprietary investments	20,743	15,349
Purchase of property and equipment	(164)	(590)
Deferred sales commissions paid	(913)	(98)
Other long-term assets	(1,370)	–
Cash used in investing activities	(7,136)	(10,565)
Financing Activities		
Dividends paid	(21,750)	(37,500)
Cash used in financing activities	(21,750)	(37,500)
Net increase (decrease) in cash and cash equivalents during the year	32,199	(40,878)
Cash and cash equivalents, beginning of the year	49,010	89,888
Cash and cash equivalents, end of the year	81,209	49,010
Cash and cash equivalents:		
Cash	15,341	17,223
Short-term deposits	65,868	31,787
	81,209	49,010
Supplemental cash flow information		
Income taxes paid	497	21,893
Interest paid	–	–

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 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 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. Common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol SII.

On June 1, 2009, SAMI completed a corporate reorganization and transferred its discretionary portfolio management business to Sprott Asset Management LP ("SAM LP") and its broker dealer services to Sprott Private Wealth LP ("SPW LP"). After the reorganization, SAMI was wound up into the Company. As a result of the reorganization, the Company is now the sole limited partner of SAM LP, SPW LP and Sprott Consulting LP ("SCLP"). The reorganization had no impact on the consolidated financial statements. SAM LP is registered with the Ontario Securities Commission ("OSC") as 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. SCLP provides management and administrative services to other companies.

2. Basis of Presentation and Significant Accounting Policies

Basis of presentation

The 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 SCLP while the material wholly-owned subsidiaries are Sprott Genpar Ltd. and SAMGENPAR Ltd. All intercompany accounts have been eliminated on consolidation.

Use of estimates

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

Cash and cash equivalents

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

Proprietary investments

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

Revenue recognition

The Company, through SAM LP and SCLP, receives management fees from the funds, managed accounts and companies that it manages at annual rates ranging from 0.35% to 2.50% per annum of the respective net assets. The management fees are recognized on an accrual basis over the period during which the related services are rendered and are collected monthly, quarterly or annually.

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

The Company, through SPW LP, primarily earns trailer fee income and may earn commissions from the sale of new and follow-on offerings of products managed by the Company and through private placements to clients of SPW LP. Trailer fee income and commission income is recognized on an accrual basis over the period during which the related service is rendered.

Financial instruments

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. The Company includes in this category amounts relating to short-term receivables and a secured note receivable. The Company assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables are impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized through the income statement.

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

A fair value hierarchy is used to disclose information about financial instruments measured at fair value and has the following levels:

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

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

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

Precious metal bullion

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

Property and equipment

Property and equipment are recorded at cost and are amortized on a declining balance basis at rates ranging from 0% to 100% per annum. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease. The artwork is not amortized since it does not have a determinable useful life.

Earnings per share

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

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

Foreign currency transactions

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

Income taxes

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

Stock-based compensation

The Company uses the fair value method to account for stock-based transactions with employees and directors. Compensation expense is determined using the Black-Scholes option valuation model for incentive stock options. Compensation expense for the share incentive program is determined based on the fair value of the benefit conferred on the employee (See Note 6). The amount of compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus. On the exercise of stock options for shares, the contributed surplus previously recorded with respect to the exercised options and the consideration paid is credited to capital stock.

Variable interest entities

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

Intangible assets

During 2010, the Company adopted a policy for intangible assets as a result of transactions completed in 2010. The costs incurred to create management services contracts between SAM LP and certain of the funds managed by SAM LP are recognized as intangible assets with an indefinite life and are not amortized but are subject to an impairment review at least annually and, if impaired, written down to fair value.

Deferred sales commissions

Sales commissions paid on the sale of mutual fund securities are recorded at cost and amortized on a straight-line basis over a maximum of three years. Unamortized deferred sales commissions are written down to the extent that the carrying value exceeds the expected future revenue on an undiscounted basis.

Adoption of new accounting standards

Effective December 31, 2010, the Company has elected early adoption as of January 1, 2010 the CICA Handbook Section 1582, *Business Combinations* ("Section 1582"), Section 1601, *Consolidated Financial Statements* ("Section 1601") and Section 1602, *Non-Controlling Interest* ("Section 1602"). These Handbook sections are substantially converged with International Financial Reporting Standards ("IFRS"). In accordance with the transitional provisions, these Handbook sections were applied on a prospective basis, from January 1, 2010 with the exception of the presentation and disclosure requirements for non-controlling interests which were applied retrospectively. As a result of the adoption of these Handbook sections, there was no material impact on the Company's consolidated financial statements.

(i) Business Combinations

Section 1582 retained the fundamental requirements of previous guidance to identify an acquirer, to use the acquisition method of accounting for each business combination and requires that identifiable assets acquired, liabilities assumed and consideration transferred, including contingent consideration, be measured at fair value. Goodwill

is the difference between the fair value of consideration transferred and the fair value of the net assets acquired. Subsequent changes in the fair value of contingent consideration accounted for as a financial liability and any future adjustments to income tax estimates are recorded in net income. Share consideration issued by the acquirer is measured at fair value at the acquisition date and the acquirer is required to expense acquisition-related costs as incurred. A non-controlling interest may be measured at fair value or at the proportionate share of the carrying value of the acquiree.

(ii) Consolidated Financial Statements
Section 1601 carried forward existing guidance on aspects of the preparation of consolidated financial statements subsequent to the acquisition date other than those pertaining to a non-controlling interest.

(iii) Non-Controlling Interest
Section 1602 provides guidance on the treatment of a non-controlling interest after acquisition in a business combination and requires: a non-controlling interest to be presented clearly in equity, but separately from equity attributed to shareholders of the Company; the amount of consolidated net income and other comprehensive income attributed to shareholders of the Company and to a non-controlling interest to be clearly identified and presented on the consolidated statements of income and comprehensive income retrospectively; and changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control to be accounted for as an equity transaction.

Future changes in accounting policies

International Financial Reporting Standards
AcSB has confirmed that the use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended December 31, 2011 and will be required to provide information that conforms with IFRS for the comparative periods presented. Management implemented an IFRS changeover plan and completed its preliminary analysis of transition impacts in 2009.

In 2010, the Company continued monitoring new standards and amendments to existing IFRS standards and concluded there are no new standards or amendments to existing IFRS standards that will alter the previous guidance issued by the Company for its upcoming first quarterly report under IFRS.

3. Proprietary Investments

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

Years ended December 31	2010	2009
Gold bullion	**7,931**	6,435
Silver bullion	**6,788**	–
Public equities and share purchase warrants	**21,387**	4,674
Mutual funds and hedge funds	**4,627**	831
Secured note receivable	–	14,338
Private equities	**1,151**	1,726
Total proprietary investments	**41,884**	28,004

As at December 31, 2010, investments in public equities and share purchase warrants consisted primarily of companies in the resource sector. These investments include $15.7 million in common shares of Sprott Resource Lending Corp. (formerly Quest Capital Corp.), a public company listed on the TSX and NYSE Amex that is managed by a subsidiary of SCLP under a management services agreement.

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

On December 31, 2010, the secured note receivable was redeemed by the Company for 110% of its face value as per the Note Indenture pursuant to a change of control of the issuer. In 2010, the Company earned $1.5 million (2009 – $0.9 million) of interest income from this secured note.

4. Property and Equipment

Property and equipment consist of the following ($ in thousands):

December 31, 2010	Cost	Accumulated amortization	Net book value
Artwork	1,691	–	1,691
Furniture and equipment	1,751	1,346	405
Computer hardware and software	1,154	1,061	93
Leasehold improvements	3,105	1,589	1,516
	7,701	3,996	3,705

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

5. Other Long-Term Assets

Other long-term assets consist of the following ($ in thousands):

	December 31, 2010	December 31, 2009
Intangible assets	1,369	–
Deferred sales commissions, net of accumulated amortization of $180 (2009 – $4)	832	94
	2,201	94

The intangible assets relate to certain costs incurred to create management services contracts between SAM LP and certain funds managed by SAM LP. The intangible assets have indefinite useful lives and are assessed for impairment at each reporting period. Based on our assessment, we determined that no impairment exists.

6. Shareholders' Equity

(a) Capital stock and contributed surplus

The authorized capital of the Company consists of an unlimited number of common shares, without par value.

	Number of shares	Stated value ($ in thousands)
Issued		
Balance, December 31, 2008, 2009 and 2010	150,000,000	40,105

Contributed surplus consists of the following:

(i) stock option expense, and

(ii) share incentive program expense.

	Stated value ($ in thousands)
Balance, December 31, 2008	1,524
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	2,296
Balance, December 31, 2009	3,820
Expensing of fair value of 2,650,000 Sprott Inc. stock options over the vesting period	2,294
Expensing of share incentive program	25,707
Balance, December 31, 2010	31,821

(b) Stock option plan and share incentive program

Stock option plan

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.

The details of option grants are as follows:

Date	Number of options	Fair market value	Exercise price	Expiry date	Inputs used to calculate fair value
Date of grant: May 6, 2008	2,450,000	$ 2.71	$ 10	May 6, 2018	Risk-free interest rate of 3.05%, expected life of 5 years, weighted average volatility of 28% and expected dividend yield of 1%
Date of grant: June 2, 2008	100,000	$ 2.49	$ 9.06	June 2, 2018	Risk-free interest rate of 3.27%, expected life of 5 years, weighted average volatility of 28% and expected dividend yield of 1%
Date of cancellation: January 8, 2010	(100,000)	$ 2.49	$ 9.06		
Date of grant: January 15, 2010	50,000	$ 3.27	$ 4.85	January 15, 2020	Risk-free interest rate of 2.35%, expected life of 5 years, weighted average volatility of 40% and expected dividend yield of 2.06%
Date of grant: November 9, 2010	150,000	$ 2.06	$ 6.60	November 9, 2020	Risk-free interest rate of 1.57%, expected life of 5 years, weighted average volatility of 40% and expected dividend yield of 1.80%
As at December 31, 2010	**2,650,000**				

As at December 31, 2010, of the 2,650,000 option granted, 1,633,333 options were exercisable and 1,016,667 had not vested.

Share incentive program

In September 2010, Eric Sprott, Chairman of the Company, personally funded a share incentive program through his personal holding company ("Holdco"). The program provided the Company's new Chief Executive Officer and the Company's President (together, the "Executives") with a total of 8 million common shares (the "Shares") of the Company. This arrangement did not result in the issuance of shares from the treasury of the Company.

In accordance with CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments,* this transaction is considered stock-based compensation expense of the Company and recorded as an offset to contributed surplus to reflect the capital contribution made by Holdco. Total shareholders' equity of the Company was unaffected. The transaction was valued at $25.7 million reflecting the maximum benefit conferred to the Executives as a result of the arrangement and has been fully expensed in these consolidated financial statements with a corresponding increase to contributed surplus. The Shares are freely tradable and carry no restrictions.

For the year ended December 31, 2010, the Company recorded for share-based compensation, compensation expense of $28.0 million in aggregate (2009 – $2.3 million), with a corresponding increase to contributed surplus. Of the $28.0 million compensation expense, $25.7 million (2009 – $nil) relates to the share incentive program and the remaining $2.3 million (2009 – $2.3 million) to the stock option plan.

(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;
- To provide financial flexibility to fund possible acquisitions;

- To provide adequate seed capital for the Company's new product offerings; 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 dividend payments to shareholders.

The Company's capital is comprised of equity, including capital stock, contributed surplus and retained earnings. SPW LP is a member of the 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 regular basis. As at December 31, 2010, SPW LP and SAM LP were in compliance with their respective capital requirements.

The Company entered into a revolving term credit facility with a Canadian chartered bank in the amount of up to $50 million subsequent to the year end (see Note 16).

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

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

7. Financial Instruments

Financial instruments are classified based on categories according to CICA Handbook "Section 3855, *Financial Instruments – Recognition and Measurement*" as follows ($ in thousands):

	Carrying Amount on Balance Sheet		
	Fair Value		Amortized Cost
December 31, 2010	Available for Sale	Held for Trading	Loans and Receivables and Other Financial Liabilities
Cash and cash equivalents	–	81,209	–
Proprietary investments	1,183	25,982	–
Fees receivable	–	–	209,078
Other assets	–	–	2,025
Total financial assets	1,183	107,191	211,103
Accounts payable and accrued liabilities	–	–	17,010
Compensation and employee bonuses payable	–	–	61,644
Total financial liabilities	–	–	78,654

	Carrying Amount on Balance Sheet		
	Fair Value		Amortized Cost
December 31, 2009	Available for Sale	Held for Trading	Loans and Receivables and Other Financial Liabilities
Cash and cash equivalents	–	49,010	–
Proprietary investments	1,819	5,412	14,338
Fees receivable	–	–	12,751
Other assets	–	–	2,248
Total financial assets	1,819	54,422	29,337
Accounts payable and accrued liabilities	–	–	4,546
Compensation and employee bonuses payable	–	–	9,192
Total financial liabilities	–	–	13,738

Proprietary investments classified as available for sale consisted of an investment in common stock of a private company in the gold and precious minerals sector presented at cost less impairment, if any.

Proprietary investments classified as held for trading consisted entirely of public equities, share purchase warrants and investments in mutual funds and hedge funds managed by SAM LP.

Fair value hierarchy

Financial instruments carried at fair value

The financial instruments carried at fair value have been categorized under three levels of the fair value hierarchy as follows:

Quoted prices (unadjusted) in an active market for Identical assets (Level 1)

This level of the hierarchy includes listed securities on major exchanges, including the TSX and TSX Venture Exchange, investments in redeemable mutual funds and highly liquid temporary deposits with Canadian banks. The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

Inputs other than quoted prices included in Level 1 that are observable for the asset either directly or indirectly (Level 2)

This level of the hierarchy includes common shares traded in over-the-counter markets, warrants valued using observable inputs and investments in hedge funds.

Inputs for the asset that are not based on observable market data (Level 3)

As at December 31, 2010, the Company does not have any financial instruments that are measured at fair value and are classified as Level 3.

The following tables classify the carrying value of the financial instruments held at fair value across the fair value hierarchy (in $ thousands):

	Financial instruments at fair value		
December 31, 2010	Level 1	Level 2	Total
Cash and cash equivalents	**81,209**	**–**	**81,209**
Public equities	**1,906**	**15,894**	**17,800**
Common share purchase warrants	**–**	**3,587**	**3,587**
Mutual funds	**1,950**	**–**	**1,950**
Hedge funds	**–**	**2,677**	**2,677**
Total	**85,065**	**22,158**	**107,223**

	Financial instruments at fair value		
($ thousands) December 31, 2009	Level 1	Level 2	Total
Cash and cash equivalents	49,010	–	49,010
Public equities	1,440	1,444	2,884
Common share purchase warrants	–	1,790	1,790
Mutual funds	503	–	503
Hedge funds	–	328	328
Total	**50,953**	**3,562**	**54,515**

During the year ended December 31, 2010 and December 31, 2009, the Company did not hold any Level 3 financial instruments and there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

At December 31, 2010, public equities included $15.7 million in common shares of Sprott Resource Lending Corp (formerly Quest Capital Corp.) that were restricted as at December 31, 2010 and became freely trading effective January 7, 2011 and were transferred from Level 2 to Level 1 at that time.

Financial instruments not carried at fair value

For fees receivable, other assets, accounts payable and accrued liabilities and compensation and employee bonuses payable, the carrying amount represents a reasonable approximation of fair value due to their short term nature.

Precious metal bullion forms part of proprietary investments as detailed in Note 3 to the consolidated financial statements. Under Canadian GAAP, precious metal bullion is not considered a financial instrument and is not included in the above analyses.

8. Related Party Transactions

(a) Artwork rental

Historically, the Company rented artwork from Mr. Sprott, Chairman of the Company, as well as from Sprott Securities Ltd., a corporation wholly-owned by Mr. Sprott. The rental rate was equal to 3% per annum of the amount paid to acquire the artwork displayed in the office area of the Company. Commencing in May 2009, these artwork rental contracts were cancelled. As a result, there were no artwork rental fees incurred for the year ended December 31, 2010. For the year ended December 31, 2009, the Company incurred an expense of $0.3 million in artwork rental fees to Mr. Sprott and Sprott Securities Ltd.

(b) 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 were investments in private companies for which there was no active market. Those investments were purchased for $1.8 million, were classified as available for sale and recorded at cost less any permanent impairment. Some of those investments have subsequently started trading in a public market and were disposed of by the Company. As a result, as at December 31, 2010, the Company continues to hold one such investment.

(c) Share incentive program

In September 2010, Eric Sprott, Chairman of the Company, personally funded a share incentive program through Holdco. The program provided the Executives with a total of 8 million common shares of the Company. This arrangement did not result in the issuance of common shares from the treasury of the Company. See Note 6, Shareholders' Equity for additional information.

9. Commitments

Lease commitments

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

	($ in thousands)
2011	2,388
2012	2,388
2013	2,388
	7,164

10. Earnings Per Share

For the year ended December 31, 2010, basic and diluted earnings per common share were $0.87. For the year ended December 31, 2009, basic and diluted earnings per common share were $0.21. Earnings per share are calculated using the weighted average number of shares outstanding during the relevant periods. For the years ended December 31, 2010 and December 31, 2009, the weighted average number of shares outstanding was 150,000,000.

11. Income Taxes

The reconciliation of the Company's effective tax rate to the statutory tax rate is as follows ($ in thousands):

	Year ended December 31, 2010
Income taxes at statutory tax rate (28.42%)	**49,174**
Decrease in income taxes resulting from:	
Non-taxable stock-based compensation	**7,958**
Non-taxable portion of capital gains and unrealized gains	**(12,225)**
Non-taxable foreign affiliate income	**(2,129)**
Rate differences and other	**(983)**
Income tax provision as reported (effective tax rate of 24.16%)	**41,795**

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

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

	Year ended December 31, 2010	Year ended December 31, 2009
Current income tax expense	**41,165**	12,647
Future income tax expense	**630**	685
Provision for income taxes	**41,795**	13,332

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

	Year ended December 31, 2010	Year ended December 31, 2009
Foreign accrual property losses and capital losses	**1,935**	1,260
Other	**–**	29
Future income tax asset	**1,935**	1,289
Unrealized capital gains	**(1,217)**	(493)
Intangible assets and deferred sales charges	**(552)**	–
Future income tax liability	**(1,769)**	(493)

As at December 31, 2010, the future income tax asset in the amount of $1.9 million related entirely to foreign accrual property losses and capital losses. The future income tax liability of $1.8 million relates to future taxes associated with unrealized gains as well as certain items which are deductible for income tax purposes, but capitalized for accounting purposes. As at December 31, 2010, the Company had approximately $6.7 million of unused capital losses realized on the disposition of a subsidiary by means of a dividend-in-kind and do not expire.

12. Variable Interest Entities

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

13. Risk Management Activities

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

(a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in a change in the fair value of a financial instrument. The Company's financial instruments are classified as held for trading, available for sale or loans and receivables 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 loans and receivables. 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 more details about 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 income taxes, this would have increased income before income taxes by approximately $1.3 million (December 31, 2009 – $0.3 million); conversely, if the value of proprietary investments decreased by 5%, this would have decreased income before income taxes by the same amount.

If the market value of gold and silver bullion increased by 5%, with all other variables held constant and before income taxes, this would have increased income before income taxes by approximately $0.7 million (December 31, 2009 – $0.3 million); conversely, if the value of gold and silver bullion decreased by 5%, this would have decreased income before income taxes 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 SCLP. Assets under management refer to the total net assets of Sprott funds and managed accounts, on which management fees and performance fees are calculated.

Interest rate risk

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

In the second quarter of 2009, the Company, through its wholly-owned subsidiary, SAMGENPAR Ltd., invested approximately $14 million in a secured note bearing an interest rate of 10% per annum and secured against the assets of the issuer. On December 31, 2010, this secured note was redeemed by the Company for 110% of its face value pursuant to a change of control of the issuer.

Foreign exchange risk

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

As at December 31, 2010, approximately $15.6 million or 4.6% (2009 – $8.0 million or 8.2%) 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 $1.2 million (2009 – $0.5 million) of cash, $50.8 million (2009 – $7.6 million) of accounts receivable and $0.1 million (2009 – $0.2 million) of other assets were denominated in USD. As at December 31, 2010, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5% (relative to the Canadian dollar), with all other variables held constant and before income taxes, the increase or decrease, respectively, in income before income taxes would have amounted to approximately $3.4 million (2009 – $0.8 million).

(b) Credit risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2010,

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.

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

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. As at December 31, 2010, the Company had $81.2 million or 23.7% of its total assets in cash and cash equivalents. The majority of current assets reflected on the consolidated balance sheets are highly liquid. Approximately $16.6 million or 39.7% 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 a year. 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.

14. Segmented Information

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

15. Contingent Liabilities

In the normal course of operations, former employees may from time to time file claims for additional compensation. The Company is currently defending itself against such claims. The Company has provided for the settlement of these claims, the amount of which is immaterial to these consolidated financial statements.

16. Subsequent Events

(a) Dividend

Following receipt of performance fees for the year ended December 31, 2010 and the completion of these audited consolidated financial statements, the Company's Board of Directors declared a special dividend of $0.60 per common share in January 2011 and a second special dividend of $0.12 per common share was declared in March 2011. The special dividend of $0.60 per common share was paid on February 3, 2011.

In March 2011, a dividend of $0.03 per common share was declared for the quarter ended December 31, 2010.

(b) Acquisition of Rule Investments Inc., Global Resource Investments Ltd., Terra Resource Investment Management Inc. and Resource Capital Investments Corp. (the "Global Companies")

On February 4, 2011, the Company acquired all of the outstanding common shares of the Global Companies. The Company has acquired the Global Companies because it is expected to provide benefits across the Company and throughout the Global Companies through the sharing of intellectual capital, the development of new products, and by leveraging the Company's products and brands in the United States and internationally.

As consideration, the Company issued 19,467,500 common shares from treasury valued at $168.8 million, excluding costs. The common shares of the Company issued as consideration were valued at $8.67 per share using the closing price of the Company's common shares on February 4, 2011. An additional 532,500 common shares of the Company will be provided to employees of the Global Companies after closing. In addition, the seller and certain current and future employees of the Global Companies will be eligible to earn up to an additional 8 million common shares of the Company with the achievement of certain financial targets by the Global Companies over a period of up to five years.

The allocation of the purchase price will be completed in fiscal 2011 after the Company finalizes its valuation of the acquired identifiable intangible assets.

(c) Line of credit

In February 2011, the Company established a revolving term credit facility ("Credit Facility") with a Canadian chartered bank in the amount of $50 million. The Credit Facility is secured by a general security agreement. The Company is able to draw down on the Credit Facility by way of demand indebtedness with interest based either on the bank's prime rate or banker's acceptances.

17. Comparative Audited Consolidated Financial Statements

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

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

For the three months ended December 31 ($ in thousands, except for per share amounts)	2010 $	2009 $
Revenue		
Management fees	31,534	23,052
Performance fees	199,139	10,614
Unrealized and realized gains on proprietary investments	5,450	1,465
Commissions	2,841	24
Other income	2,925	591
Total revenue	241,889	35,746
Expenses		
Compensation and benefits	61,515	8,695
Stock-based compensation	26,300	574
Trailer fees	6,337	5,099
General and administrative	5,249	2,289
Donations	1,580	282
Amortization	280	356
Total expenses	101,261	17,295
Income before income taxes for the period	140,628	18,451
Provision for income taxes	32,596	5,138
Net income and comprehensive income for the period	108,032	13,313
Retained earnings, beginning of the period	38,165	22,652
Dividends declared	(4,500)	(3,750)
Retained earnings, end of the period	141,697	32,215
Basic and diluted earnings per share	$ 0.72	$ 0.09

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended December 31 ($ in thousands)	2010 $	2009 $
Operating Activities		
Net income for the period	108,032	13,313
Add (deduct) non-cash items:		
Unrealized and realized gains on proprietary investments	(5,450)	(1,465)
Stock-based compensation	26,300	574
Amortization of property and equipment	206	352
Amortization of deferred sales commissions	74	4
Future income taxes	(547)	584
Other items	(516)	(64)
	128,099	13,298
Fees receivable	(204,862)	(9,261)
Other assets	85	148
Accounts payable and accrued liabilities	11,854	(605)
Compensation and employee bonuses payable	53,074	1,143
Income taxes payable	32,640	4,532
Cash provided by operating activities	20,890	9,255
Investing Activities		
Purchase of proprietary investments	(2,000)	(89)
Sale of proprietary investments	14,474	752
Purchase of property and equipment	(55)	(244)
Deferred sales commissions paid	(369)	(98)
Other long-term assets	(1)	–
Cash provided by investing activities	12,049	321
Financing Activities		
Dividends paid	(4,500)	(3,750)
Cash used in financing activities	(4,500)	(3,750)
Net increase in cash and cash equivalents during the period	28,439	5,826
Cash and cash equivalents, beginning of the period	52,770	43,184
Cash and cash equivalents, end of the period	81,209	49,010
Cash and cash equivalents:		
Cash	15,341	17,223
Short-term deposits	65,868	31,787
	81,209	49,010
Supplemental cash flow information		
Income taxes paid	498	48
Interest paid	–	–

CORPORATE INFORMATION

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Stock Information
Sprott Inc. common shares are traded on the Toronto Stock Exchange under the symbol “SII”

Annual Meeting
June 2, 2011 at 4:00 pm EDT
The Design Exchange
234 Bay Street
Toronto ON M5K 1B2

www.sprottinc.com