Sprott Inc.

Report to Shareholders

September 30,

2010

November 11, 2010

Dear Shareholders,

I'm grateful to have this opportunity to provide you with my first quarterly update as CEO of Sprott Inc. ("Sprott"). We have been an active organization over the past few months, and we have made significant progress on a number of fronts. Our funds continue to perform well, with many benefiting from their exposure to gold and silver. Through the first nine months of 2010, our top-performing mutual funds were the Sprott Gold and Precious Minerals Fund and our flagship Sprott Canadian Equity Fund, posting returns of 38% and 21% respectively. Among the hedge funds, the Sprott Small Cap Fund led the way with a return of 23%. I note that each of these top-performing funds is managed by a different team of portfolio managers. I am pleased to report that, as a result of our strong investment performance year-to-date, at the time of writing this letter, the majority of our assets under management are accruing performance fees.

Our efforts to broaden our product line up continued with the rapid growth of our specialty products franchise. In August, we completed a second follow-on offering of units of the Sprott Physical Gold Trust, which raised gross proceeds in excess of US$300 million. Since its inception last March, the Trust has been a success and now has more than $1.1 billion in assets under management. Building on the momentum generated by the Sprott Physical Gold Trust, we recently launched the Sprott Physical Silver Trust to provide investors with a convenient and cost effective way to invest in physical silver bullion. The Trust's initial public offering was a tremendous success, raising gross proceeds of US$575 million, demonstrating that investors' demand for precious metals managed by Sprott remains strong.

The success of the Silver Trust demonstrates our commitment to silver as an investment. Underpinned by our early research into the sector, several of our funds have a significant weighting in silver equities, silver linked notes and bullion. As an organization, we believe firmly in the long-term potential of silver as an investment and have invested significant capital in our funds alongside our clients. We believe this willingness to actively invest in our own ideas illustrates our confidence in our investment theses and differentiates us from other asset managers.

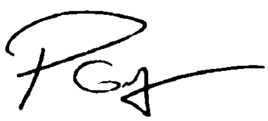
We have also worked hard to diversify and extend the reach of our business by expanding our footprint beyond Canada. In September, we announced a letter of intent to acquire the Global Group of Companies, led by Rick Rule, one of North America's leading resource investors. The Global Group includes a specialized asset manager and broker dealer with an investment expertise that is complementary to ours at Sprott and a product line that will further diversify our asset and earnings mix. Rick and his team bring an element of resource specialization that will strengthen our already deep investment team in that sector. We are currently engaged in the due diligence process and expect the transaction to close early in 2011. Upon closing, the deal is expected to be immediately accretive to our shareholders.

Under the leadership of Kevin Bambrough and his team, Sprott Consulting continues to add to its roster of managed companies, completing in September a previously announced transaction to re-brand Quest Capital Corp. as Sprott Resource Lending Corp. ("Sprott Resource Lending"). The new company will be managed through a management services agreement with Sprott Consulting – in addition to my role as CEO of Sprott, I will also be CEO of Sprott Resource Lending – and will focus on providing bridge and mezzanine financing to resource companies. We believe this is currently an underserved area of the market, which presents us with an excellent opportunity to use our expertise and network of contacts to establish Sprott Resource Lending as a leader in an area in which superior returns on investment can be generated.

Our AUM was $6.5 billion at the end of September 2010, up from $4.3 billion at the end of September 2009, and $5.5 billion as at June 30, 2010. The increase in AUM was largely due to sales of the follow-on offering of Sprott Physical Gold Trust units and market value appreciation of the assets in our funds.

To reflect our strong performance, the Board of Directors approved an increase to our regular quarterly dividend to $0.03 per share. The dividend is payable on December 6, 2010 to shareholders of record at the close of business on November 19, 2010.

Finally, I would like to thank the broad team of exemplary professionals at Sprott for making my transition into this new role as smooth as possible. I am constantly remarking that this team, and the energy and ideas provided by it, are our most valuable and underappreciated asset. As always, we remain focused on delivering superior performance to our shareholders and I look forward to reporting to you in future quarters on the many initiatives we are currently undertaking to achieve that goal.



Peter Grosskopf
Chief Executive Officer

Management's Discussion & Analysis

This Management's Discussion & Analysis ("MD&A") of Financial Condition and Results of Operations presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of September 30, 2010 compared with December 31, 2009, and the results of operations for the three and nine month periods ended September 30, 2010 compared with the corresponding periods in 2009. The Board of Directors approved this MD&A on November 9, 2010.

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 unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 and the notes thereto and with the audited consolidated financial statements as at December 31, 2009 and for the year then ended, including the notes thereto and the related MD&A.

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

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 30, 2010. 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 November 9, 2010 and will not be updated or revised except as required by applicable securities law.

NON-GAAP FINANCIAL MEASURES

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

Our key performance indicators include:

Assets Under Management

Assets Under Management or AUM refers to the total net assets of our public mutual funds, hedge funds, offshore funds and bullion funds (the "Funds") and managed accounts, which includes the companies managed by Sprott Consulting LP ("SCLP") ("Managed Accounts"), on which management fees ("Management Fees") or performance fees ("Performance Fees") are calculated. We believe that AUM is an important measure as we earn Management Fees, calculated as a percentage of AUM, and may earn Performance Fees, calculated as a percentage of: (i) our Funds' and Managed Accounts' excess performance over the relevant benchmark; (ii) the increase in net asset values of our Funds over a predetermined hurdle, if any; or (iii) the net profit in our Funds over the performance period. We monitor the level of our

AUM because they drive our level of Management Fees. The amount of Performance Fees we earn is related to both 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 and Fund expenses, determine the level of AUM which, as discussed above, is the basis on which Management Fees are charged and to which Performance Fees may be applied.

EBITDA

Our method of calculating EBITDA is defined as earnings before interest expense, income taxes, amortization of fixed assets, amortization of deferred sales charges 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 and Performance Fee-related bonuses. 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.

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

OVERVIEW

The Corporation operates 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 Corporation 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.

Management's Discussion & Analysis

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 management, administrative and consulting services to other companies. Currently SCLP provides these services to Sprott Resource Corp., Sprott Resource Lending Corp. and Sprott Power Corp. ("SPC").

Currently, the majority of the Corporation'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). 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 enables us to benefit from our expertise in managing other companies, both public and private.

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

Key Performance Drivers

Our key performance indicators are:

- AUM
- Performance of our Funds and Managed Accounts
- Net sales (sales less redemptions) of our Funds and Managed Accounts
- EBITDA and Base EBITDA

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 certain 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 and Managed Accounts and from Performance Fees earned from the investment of the AUM of our Funds and Managed Accounts. Our Management Fees are calculated as a percentage of AUM. Our Performance Fees are calculated as a percentage of the return earned by our Funds and Managed Accounts. Accordingly, the growth in our fees is based on both the growth in AUM and the absolute or relative return, as applicable, earned by our Funds and Managed Accounts. As at September 30, 2010, we managed approximately $6.5 billion in assets among our various Funds and Managed Accounts.

Management Fees are less variable and more predictable than Performance Fees. Management Fees are generally closely correlated with changes in AUM. However, the rate of change in our Management Fees may not exactly mirror the rate of change in our AUM, primarily a result of two factors. First, multi-series or multi-class structures are offered in some of our Funds whereby the Management Fee differs among the applicable series or classes. Second, mutual Funds have the highest rate of Management Fees, followed by hedge Funds and offshore Funds, while bullion Funds have the lowest rate of Management Fees. Fees for managing the various Managed Accounts, including the companies managed by SCLP are negotiated on a case by case basis. Therefore, the weighting of AUM among our various Funds and Managed Accounts impacts Management Fees as a percentage of AUM.

Performance Fees are determined as of December 31 each year. However, Performance Fees are accrued in the relevant Funds and Managed Accounts, as applicable, to properly reflect the Performance Fee that would be payable, if any, based on the Net Asset Value of that Fund or Managed Account. Where an investor redeems a domestic hedge Fund or an offshore Fund, any Performance Fee attributable to those units redeemed is paid to SAM LP as manager of the Funds. 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.

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 directly to individual performance and the overall financial performance of the Company. Trailer fees are paid to dealers that distribute units of a Fund. Such dealers may receive a trailer fee (annualized but paid monthly or quarterly) of up to 1% of the value of the assets held in the respective Fund by the dealer's clients. Both the employee bonus pool component of compensation and trailer fees are correlated with Management 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.

Last year we introduced a low load sales charge option for some of our Funds. Sales under this option have not been significant to date and the commissions have been financed from internal cash flow. 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

The third quarter of 2010 was, once again, an extremely active period as we continue to execute on various growth and development initiatives across the organization:

Potential 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"). Upon closing of the proposed Transaction, the LOI calls for the Company to issue twenty million common shares in the capital of the Company in consideration for the acquisition of the Global Companies, with the possibility of up to an additional eight million common shares of the Company to be issued as additional consideration within five years upon the attainment of certain financial performance hurdles.

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, the Global Companies administer or manage more than US$1.3 billion in client assets across three business lines.

We are, in conjunction with our advisors and legal counsel, performing detailed due diligence and negotiating the definitive share purchase agreement with the intent of closing the transaction very early in 2011.

Hiring and Retention of Top Talent

On September 7, 2010, Peter Grosskopf officially 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, Eric Sprott has personally agreed to fund a share incentive program through his personal holding company ("Holdco"). The program will provide Mr. Grosskopf with five million common shares of the Company held by Holdco and Mr. Bambrough with three million common shares of the Company. With this transfer of eight million common shares of the Company, Holdco's ownership stake will be reduced by approximately 8%. While the details of this program are still being finalized, this arrangement does not contemplate any issuance of shares from treasury by the Company.

In order to retain and motivate key employees as well as to align the interests of employees with that of our shareholders, we are reviewing our compensation and incentive plans including the possible introduction of an equity-related compensation plan. Any change in our compensation arrangements will be effective in 2011.

Product and Business Line Expansion

On September 8, 2010, the Company announced that Sprott Resource Lending Corp. ("SRLC") (formerly Quest Capital Corp.) (TSX:QC) had completed a private placement of $25 million (the "Private Placement"). SPW LP, a subsidiary of the Company, acted as sole agent to SRLC on the 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 managed by Sprott Lending Consulting LP ("SLC LP"), a subsidiary of SCLP. SRLC has cash of approximately $100 million to commit to resource lending and has an aggressive plan to monetize its net real estate loans of approximately $160 million to generate additional resource lending assets in relation to which SLC LP may earn Management Fees and Performance Fees.

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

On October 28, 2010, we launched Sprott Physical Silver Trust, raising gross proceeds of US$575 million.

SPC, a privately held Canadian company is managed by Sprott Power Consulting LP, a subsidiary of SCLP. SPC is dedicated and committed to the development and financing of renewable energy projects. On October 26, 2010, SPC announced that they have entered into a memorandum of understanding that provides for a merger of First Asset PowerGen Fund and SPC. The merger is subject to satisfactory completion of due diligence and any necessary regulatory approvals.

SPW LP provides a captive distribution channel for some of our Fund offerings, such as, Sprott Private Credit Fund. SPW LP has also 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 and business lines 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 and Managed Accounts that we manage. We have leased additional space contiguous to our existing premises in Toronto to accommodate the expansion of our various businesses.

FINANCIAL HIGHLIGHTS

Financial highlights for the three and nine months ended September 30, 2010 were:

- AUM at September 30, 2010 were $6.5 billion. This reflects an increase of $1.0 billion (18.2%) from $5.5 billion at June 30, 2010 and an increase of $2.2 billion (51.2%) from the $4.3 billion of AUM at September 30, 2009. Average AUM in the third quarter of 2010 was approximately $5.7 billion as compared to approximately $4.2 billion in the third quarter of 2009, an increase of 34.2%. In the third quarter of 2010, market values increased by $0.6 billion, along with the positive net subscriptions of $0.4 billion, resulting in an overall increase in AUM of approximately $1.0 billion.
- Management Fees for the three and nine months ended September 30, 2010 were $24.7 million and $72.2 million, respectively, representing an increase of approximately $4.0 million (19.3%) and $7.2 million (11.1%) over the corresponding periods in 2009.

- During the third quarter of 2010, we completed a second follow-on offering of Sprott Physical Gold Trust units, generating net new sales of over US$300 million and we launched a suite of fixed income funds.
- Base EBITDA for the three and nine months ended September 30, 2010 was $10.4 million and $31.0 million respectively, compared to $8.0 million and $23.7 million in the three and nine months ended September 30, 2009.
- Net income for the quarter ended September 30, 2010 increased by 74.3% to $9.6 million ($0.06 per share) from $5.5 million ($0.04 per share) for the corresponding quarter in 2009. Net income for the nine months ended September 30, 2010 was $23.2 million ($0.15 per share), a 25.3% increase over $18.5 million ($0.12 per share) for the nine months ended September 30, 2009.

SUMMARY BALANCE SHEET

(In $000's,)	September 30, **2010**	December 31, 2009
	$	$
Total Assets	**114,170**	97,694
Total Liabilities	**30,379**	21,554
Shareholders' Equity	**83,791**	76,140

SUMMARY INCOME STATEMENT

(In $000's, except per share amounts)	For the three months ended September 30, **2010**	For the three months ended September 30, 2009	For the nine months ended September 30, **2010**	For the nine months ended September 30, 2009
	$	$	$	$
Revenue				
Management fees	**24,692**	20,702	**72,152**	64,971
Crystallized performance fees	**719**	152	**915**	2,367
Unrealized and realized gains on proprietary investments	**2,852**	657	**3,087**	3,567
Other income	**827**	520	**4,982**	874
Total revenue	**29,090**	22,031	**81,136**	71,779
Expenses				
Compensation and benefits	**8,049**	6,212	**23,850**	21,025
Trailer fees	**5,099**	4,672	**15,312**	14,092
General and administration	**2,637**	2,620	**8,222**	8,454
Donations	**173**	285	**802**	861
Amortization	**193**	197	**551**	636
Total expenses	**16,151**	13,986	**48,737**	45,068
Income before income taxes	**12,939**	8,045	**32,399**	26,711
Provision for income taxes	**3,340**	2,539	**9,199**	8,194
Net income and comprehensive income	**9,599**	5,506	**23,200**	18,517
Other expenses[1]	**807**	771	**2,354**	2,358
Provision for income taxes	**3,340**	2,539	**9,199**	8,194
EBITDA	**13,746**	8,816	**34,753**	29,069
Unrealized and realized gains on proprietary investments	**(2,852)**	(657)	**(3,087)**	(3,567)
Performance fees net of performance fee related bonus pool[2]	**(539)**	(114)	**(686)**	(1,775)
Base EBITDA	**10,355**	8,045	**30,980**	23,727
Net Income Per Share – basic	**0.06**	0.04	**0.15**	0.12
Net Income Per Share – fully diluted	**0.06**	0.04	**0.15**	0.12

[1] Includes amortization of fixed assets, amortization of deferred sales charges and non-cash stock-based compensation expense.
[2] Performance Fee related bonus pool is equal to 25% of Performance Fee Revenue.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2010 compared to three and nine months ended September 30, 2009

Overall Performance

At September 30, 2010, AUM increased by 51.2% to approximately $6.5 billion as compared with $4.3 billion at September 30, 2009. When compared to the AUM of $5.5 billion at June 30, 2010, AUM at September 30, 2010 increased 18.2%. In the third quarter of 2010, net subscriptions to the Funds and Managed Accounts were $0.4 billion along with the market value increases of $0.6 billion, resulting in the net $1.0 billion increase in AUM.

Monthly average AUM for the three and nine months ended September 30, 2010 was $5.7 billion and $5.3 billion respectively compared with $4.2 billion and $4.4 billion in the comparative prior year periods.

Total revenues for the three and nine months ended September 30, 2010 increased by $7.1 million or 32.0% to $29.1 million and $9.3 million or 13.0% to $81.1 million as compared with the corresponding three and nine months ended September 30, 2009. Management Fees for the three and nine month period ended September 30, 2010 were $24.7 million and $72.2 million, respectively, representing a increase of $4.0 million (19.3%) and $7.2 million (11.1%) over the corresponding periods in 2009. This increase was driven by higher average AUM. Unrealized and realized gains on proprietary investments were $2.2 million higher for the quarter but were lower by $0.5 million for the nine month period ended September 30, 2010 as compared to the corresponding periods in 2009. Other income increased significantly for the three and nine month period ended September 30, 2010 by $0.3 million and $4.1 million, respectively as compared to the three and nine-month period ended September 30, 2009. Crystallized Performance Fees were $0.6 million higher for the quarter but were lower by $1.5 million for the nine month period ended September 30, 2010 as compared to the corresponding periods in 2009.

Expenses totaled $16.2 million and $48.7 million for the three and nine months ended September 30, 2010, which is an increase of $2.2 million or 15.5% and $3.7 million or 8.1% respectively as compared with the three and nine months ended September 30, 2009. The increase is mainly attributable to an increase in compensation and benefits and in trailer fees, as described in greater detail later in this MD&A.

Net income of $9.6 million and $23.2 million for the three and nine months ended September 30, 2010 compares with net income of $5.5 million and $18.5 million for the three and nine months ended September 30, 2009, increases of $4.1 million or 74.3% and $4.7 million or 25.3%, respectively. The increase in the Management Fees, the selling commission revenue and unrealized gains on proprietary investments more than offset the modest increase in the trailers and compensation expenses, resulting in the net income increases described above.

Assets Under Management, Investment Performance and Net Sales

The breakdown of AUM by investment product type as at September 30, 2010 and September 30, 2009 was as follows:

	September 30, 2010		September 30, 2009	
Product Type	$ (in millions)	% of AUM	$ (in millions)	% of AUM
Mutual Funds	2,639	40.5%	2,020	46.6%
Domestic Hedge Funds	1,454	22.3%	1,341	30.9%
Bullion Funds	1,267	19.5%	87	2.0%
Managed Accounts	602	9.2%	420	9.7%
Offshore Funds	551	8.5%	470	10.8%
Total	6,513	100%	4,338	100%

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

$ millions	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
AUM, beginning of quarter	5,546	4,444	4,774	4,449
Net sales (redemptions)	354	(252)	875	(503)
Market value appreciation of portfolios	613	146	864	392
AUM, end of quarter	6,513	4,338	6,513	4,338

Performance of our Funds and Managed Accounts for the three and nine months ended September 30, 2010 resulted in AUM increasing by $613 million or 11.1% and $864 million or 18.1% respectively of opening AUM as almost all of our Funds generated positive performance. Most of our Funds posted strong performance results on both an absolute and on a relative basis for the three and nine months to September 30, 2010.

Management's Discussion & Analysis

Net sales for the three and nine months ended September 30, 2010 were $354 million and $875 million, respectively. The launch of Sprott Short-Term Bond Fund, Sprott Diversified Yield Fund and Sprott Absolute Return Income Fund (collectively, "Fixed Income Funds") along with the follow-on offering of Sprott Physical Gold Trust added $346 million to sales for the quarter. Sprott Physical Gold Trust, Sprott 2010 Flow-Through LP, Sprott Private Credit Fund and the Fixed Income Funds added $1,143 million to sales for the first nine months of 2010. Collectively, our other mutual Funds and hedge Funds experienced net redemptions of approximately $96 million and $298 million for the three and nine month period ended September 30, 2010. Some of our offshore Funds had net subscriptions while others experienced net redemptions, resulting in net outflows of approximately $13 million or 2.5% and approximately $24 million or 4.7% for the three and nine months ended September 30, 2010, respectively, of opening offshore AUM. Sprott Resource Lending Partnership added approximately $100 million to the AUM of Managed Accounts during the quarter.

Revenues

Total revenue increased by $7.1 million (32.0%) from $22.0 million to $29.1 million in the third quarter of 2010 and increased by $9.3 million (13.0%) from $71.8 million to $81.1 million in the nine month period ended September 30, 2010 compared with the corresponding periods in 2009.

Management Fees for the third quarter of 2010 increased by $4.0 million or 19.3% to $24.7 million from $20.7 million in the third quarter of 2009, as monthly average AUM for the quarter increased by approximately 34.2% over the same period. Management Fee margins (defined as Management Fees as a percentage of average AUM) fell to 1.74% from 1.96% in the third quarter of 2009. Management Fees for the nine month period increased by $7.2 million or 11.1% to $72.2 million from $65.0 million during the corresponding nine month period of 2009, as monthly average AUM for the nine months increased by approximately 19.5% over the same period. Management Fee margins fell to 1.81% from 1.95% in the nine month period ended September 30, 2010. The decrease in Management Fee margins is mainly due to an increase of approximately $0.3 billion (for the quarter) and $1.2 billion (for nine months) in the assets of bullion Funds, which have lower management fees than most of our other Funds.

Crystallized Performance Fees were $0.7 million and $0.9 million for three and nine months ended September 30, 2010 due to Performance Fees accrued by the Funds resulting in crystallization at the time of redemptions from these Funds. During the corresponding quarter and nine months of 2009, Crystallized Performance Fees were $0.2 million and $2.4 million, respectively, as a result of higher redemptions and strong performance of the Funds early in 2009.

Proprietary investments at September 30, 2010 comprise of investments in various public and private equities, investments in various Funds managed by SAM LP, gold bullion, silver bullion and an investment in a secured note receivable and equity purchase warrants.

Gains from proprietary investments (realized and unrealized) in the three and nine months ended September 30, 2010 totaled $2.9 million and $3.1 million, respectively, as compared with the gains of $0.7 million and $3.6 million for the three and nine months ended September 30, 2009. The gains in the three and nine months ended September 30, 2010 were mainly driven by the increase in the value of the Company's investment in SRLC, a particular public company investment, gold bullion and silver bullion, and realized gains from the sale of publicly traded equities in the gold sector, despite a decline in the value of the equity warrants. Gains in the three and nine months ended September 30, 2009 were due to appreciation of the Company's investment in Cadomin Capital Corporation[1], gold bullion and certain other publicly traded equities in the gold sector.

Other income increased by $0.3 million to $0.8 million for the quarter and by $4.1 million to $5.0 million for the nine months ended September 30, 2010 compared with the corresponding period in 2009. The increase in the three and nine months ended September 30, 2010 is mainly due to commissions earned by SPW LP on the sale of units of SPC, Sprott Flow-Through LP, Sprott Physical Gold Trust, SRLC and Sprott Private Credit Fund to SPW LP clients, along with interest earned on the secured note.

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1 Formerly Sprott Molybdenum Participation Corporation. Refer to Note 5(a) in the unaudited interim consolidated financial statements for further details.

Management's Discussion & Analysis

Expenses

Total expenses for the three and nine month period ended September 30, 2010 were $16.2 million and $48.7 million, respectively, an increase of 15.5% and 8.1%, respectively compared with $14.0 million and $45.1 million for the corresponding periods in 2009. The increase in the current quarter as compared with the third quarter of 2009, is mainly attributable to an increase in compensation and benefits of $1.8 million and an increase in trailer fees of $0.4 million partially offset by a decline in donations expense of $0.1 million. Similarly, the increase in the nine month period is mainly due to increases in compensation and benefits of $2.8 million and an increase in trailer fees of $1.2 million, partially offset by a decrease in donations and amortization expense of $0.1 million and decline in general and administrative costs of approximately $0.2 million.

Changes in specific categories are described in the following discussion:

Compensation & Benefits

Compensation and benefits expense for the three and nine months ended September 30, 2010 amounted to $8.0 million and $23.8 million respectively, including contributions to the discretionary employee bonus pool of $3.2 million and $8.6 million respectively. The same expense categories for the three and nine months ended September 30, 2009, were $6.2 million and $21.0 million, respectively, of which contribution to the employee bonus pool were $2.4 million and $7.7 million respectively. The increase in compensation and benefits of $1.8 million (29.6%) for the current quarter is primarily due to an increase in the total base salary expense as a result of increased headcount due to additions of new products and diversified activities across SAM LP, SCLP and SPW LP and a higher contribution to the employee bonus pool as a result of higher net operating income. Similarly, the increase in compensation and benefits of $2.8 million (13.4%) for the current nine month period, is primarily due to increases in base salary expense due to increases in head count, a higher contribution to the employee bonus pool as a result of higher net operating income and variable employee compensation paid on the sale of the Sprott 2010 Flow-Through LP, Sprott Physical Gold Trust units, Sprott Private Credit Fund units, the sale of SPC shares and the sale of SRLC shares. Compensation costs also include stock option benefit costs that have remained consistent at $0.6 million and $1.7 million for the three and the nine month periods ended September 2009 and September 2010.

Trailer Fees

Trailer fees are somewhat correlated with AUM and with Management Fees. For the three and nine months ended September 30, 2010 trailer fees of $5.1 million and $15.3 million respectively were 9.1% and 8.7% higher than in the corresponding period of 2009. As a percentage of Management Fees, trailer fees decreased to 20.6% from 22.6% in the third quarter of 2010 as compared with the third quarter of 2009 and decreased to 21.2% from 21.7% in the nine months ended September 30, 2010 as compared with the corresponding period in 2009, mainly due to the increase in AUM of bullion Funds, which pay no or low trailer fees.

General & Administration

General and administration expenses at $2.6 million in the third quarter of 2010 were consistent with the third quarter of 2009, and decreased by $0.2 million or 2.7% to $8.2 million for the nine months ended September 30, 2010 as compared with the same nine month period in 2009. Despite the decline in the general and administration expenses for the nine months ended September 30, 2010, as compared to September 30, 2009, these expenses remained consistent in the third quarter of 2010 as compared to the corresponding period of 2009. Increases in certain expense categories including marketing, systems consulting, deferred sales charges, capital taxes and general office expenses, were offset by declines in the other expense categories, including legal and regulatory, resulted in consistent total expenses in the current quarter and a decline in the 2010 nine month period as compared to the corresponding periods in 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 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 2008 than in 2009 and as a result, the accrual under the charitable donations program is lower in 2010 than in 2009. Due to the lower accrual, donation expense for the three and nine month period ended September 30, 2010 is lower than the corresponding periods in 2009.

Amortization

Amortization expense is slightly lower in the three and nine months of 2010 as compared to the three and nine months of 2009 due to lower net fixed assets in 2010 as no major fixed assets were purchased in 2010.

EBITDA, Base EBITDA and Net Income

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

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

For the three and nine months ended September 30, 2010, EBITDA was $13.7 million and $34.8 million, compared with $8.8 million and $29.1 million for the corresponding periods in 2009. The increase in EBITDA in the third quarter of 2010 as compared to the third quarter of 2009 is mainly a result of higher Management Fees, higher Crystallized Performance Fees, higher gains on proprietary investments and sales commissions partially offset by higher trailers, higher salaries and higher contribution to the employee bonus pool as a result of higher net operating income. Similarly the increase in the EBITDA in the nine month period ended September 30, 2010 as compared to the corresponding period in 2009 is primarily due to higher Management Fees and substantial sales commissions from sales by SPW LP of units of Sprott Physical Gold Trust, Sprott 2010 Flow-Through LP, Sprott Private Credit Fund, of shares of SPC and SRLC, partially offset by lower gains on proprietary investments, lower Crystallized Performance Fees, higher trailers, higher salaries, an increased contribution to the employee bonus pool as a result of higher net operating income and variable payments to Sprott employees related to the receipt of selling commissions described above.

Base EBITDA, as previously defined in this MD&A, allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as gains or losses relating to our proprietary investments. For the three and nine months ended September 30, 2010 Base EBITDA was $10.4 million and $31.0 million as compared with $8.0 million and $23.7 million in the corresponding periods of 2009, representing an increase of 28.7% and 30.6% for the three and nine month periods. Base EBITDA for the three and nine months of 2010 increased as compared to the corresponding periods in 2009 based on increases in EBITDA as described above. Base EBITDA is lower than EBITDA for the three and nine months ended September 30, 2010 and September 30, 2009 because, unlike EBITDA, Base EBITDA excludes gains on proprietary investments and Performance Fees net of Performance Fee related bonus allocation. Base EBITDA per share at $0.07 and $0.21 for the three and nine months of 2010 was higher as compared with $0.05 and $0.16 for the corresponding periods in 2009.

Income before taxes for the three and nine months ended September 30, 2010 was $12.9 million and $32.4 million compared with a pre-tax net income of $8.0 million and $26.7 million for the three and nine months ended September 30, 2009. Effective tax rates at 25.81% and 28.39% were lower for the three and nine months ended September 30, 2010 as compared to 31.55% and 30.68% for the three and nine months ended September 30, 2009. The difference between the statutory and effective rate is mostly from the rate difference and to a lesser extent the non-taxable portion of the capital gains.

Net income for the three and nine months ended September 30, 2010 was $9.6 million and $23.2 million, as compared to net income of $5.5 million and $18.5 million for the corresponding periods in 2009. For the three month period ended September 30, 2010, increases in Management Fee revenue, higher Crystallized Performance Fees, commissions and gains on proprietary investments partially offset by higher salary, bonus allocations and trailers resulted in the increase in net income. Similarly for the nine month period ended September 30, 2010, increases in Management Fee revenue and selling commissions despite a decline in Crystallized Performance Fees, lower gains on proprietary investments, higher salary, higher bonus and a higher variable compensation expense, resulted in net income increasing over the comparative period in 2009.

Management's Discussion & Analysis

Balance Sheet

Total assets at September 30, 2010 of $114.2 million are $16.5 million more than at December 31, 2009. Cash and cash equivalents of $52.8 million were $3.8 million higher than at December 31, 2009 because cash inflows, including receipt of year end Performance Fees, higher Management fees, collection of commissions by SPW LP and expense reimbursement by the funds 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 September 30, 2010 were $4.2 million, which is $8.5 million lower than at December 31, 2009 as year-end fee receivables include some Performance Fees that were received in January 2010. Other assets increased by $0.3 million since December 31, 2009, mainly due to an increase in accumulated deferred sales charges and interest receivable on the secured note receivable, offset by the collection of recoverable expenses from certain Funds managed by SAM LP. Other non-current assets as at September 30, 2010 consist of 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.

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.

SHARE CAPITAL

There has been no change in the share capital of the Company from that disclosed in the annual audited consolidated financial statements as at December 31, 2009.

Earnings per share as at September 30, 2010 and September 30, 2009 have been calculated using the weighted average number of shares outstanding during the respective periods. There has been no change in the number of issued and outstanding shares since the Initial Public Offering (150 million common shares).

A total of 2,550,000 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, bringing the stock option balance to 2,500,000 options outstanding. As at September 30, 2010, 1,633,000 of those stock options were exercisable.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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 quarter ended September 30, 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 options 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.

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

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

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

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.

As of September 30, 2010, we have determined that a switchover to IFRS would not have a material impact on the financial statements of the Company, except for possible expenses related to the share incentive program that the Company announced in the third quarter of 2010, which is further discussed earlier in this MD&A under the "Business Highlights and Growth Initiatives" section.

The Company continues to update its findings as existing standards are clarified and new standards are implemented.

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 7 November 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 proposed for Mr. Grosskopf and Mr. Bambrough discussed earlier in this MD&A, depending on the required accounting for such arrangements, the difference in timing of expense recognition between Canadian GAAP and IFRS may be material for net income in the fourth quarter of 2010.

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, recognition of intangible assets and accounting for fixed assets.

- 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.
- 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 fixed assets under IFRS and Canadian GAAP. After a review of the Company's fixed assets, 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.

For the remainder of 2010, the Company will continue to monitor new standards and amendments to existing IFRS standards and evaluate their impact.

RELATED PARTY TRANSACTIONS

Most of the artwork displayed in our office area was rented from Eric 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.

MANAGING RISK

There are certain risks inherent in the activities of the Corporation, 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 Corporation 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.

As of December 31, 2009 an evaluation was carried out, using the COSO[2] internal control framework, under the supervision of and with the participation of management, including the CEO and the CFO, of the effectiveness of our DC&P and our ICFR as defined under *National Instrument 52-109*. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these DC&P's and ICFR were effective as of December 31, 2009. No material weaknesses relating to the design or operation of the DC&P or the ICFR were identified based on the evaluation referred to above.

We regularly monitor the effectiveness of our DC&P and as at September 30, 2010, we have concluded that our DC&P continue to be effective for the nature and extent of our operations.

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.

Fair Allocation

In order to ensure fairness in the allocation of investment opportunities among our Funds and Managed Accounts, SAM LP will allocate investment opportunities with consideration to the suitability of such investments to each of SAM's Funds and Managed Account's investment objectives and strategies, portfolio composition, restrictions and cash availability (even though the investment objectives and

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

strategies are substantially the same for some of the Funds and Managed Accounts and cash flows of each Fund and Managed Account can be substantially different given daily/monthly subscriptions and redemptions/withdrawals). As well, cash flows (subscription inflows and redemptions/withdrawals) and investment strategies can influence the allocation process in order to maintain proper weightings in each Fund and Managed Account account. If an investment opportunity is suitable for more than one Fund and Managed Account, SAM LP will allocate such investment opportunities equitably in order to ensure that each Fund and Managed account has equal access to the same quality and quantity of investment opportunities. In addition, SAM LP will always seek to obtain the best order execution for each Fund and Managed Account and to minimize transaction costs.

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.

Risks Related to our Funds

Risks related to our Funds include: external market conditions; changes in investment strategies and portfolios; inability for one class or series to pay expenses of a Fund; fluctuation in frequency and size of redemptions; qualifying as mutual fund trusts; expenses; indemnification obligations; the success of our management strategies; reliance on key personnel; recognition of limited liability of limited partners or unitholders; valuation; fluctuation in commodity prices; foreign exchange and currency risk; interest rate risk; litigation risk; fluctuations in small cap companies; illiquidity; indebtedness secured by assets of a Fund; securities lending losses; special investment techniques; due diligence process; investments in companies we do not control; and ineffective risk management systems. For further details, please refer to the Annual Information Form dated March 30, 2010.

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

Sprott Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2010 and 2009

Sprott Inc.

Unaudited Interim Consolidated Balance Sheets

($ in thousands)	*As at September 30,* 2010	*As at December 31,* 2009
	$	$
Assets		
Current		
Cash and cash equivalents	52,770	49,010
Fees receivable	4,216	12,751
Other assets	2,644	2,342
Total current assets	59,630	64,103
Proprietary investments *(Note 3)*	48,392	28,004
Future income tax asset *(Note 9)*	923	1,289
Fixed assets, net *(Note 6)*	3,855	4,298
Other assets *(Note 10)*	1,370	–
	54,540	33,591
Total assets	114,170	97,694
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	5,155	4,546
Compensation and employee bonuses payable	8,570	9,192
Income taxes payable	15,351	7,323
Total current liabilities	29,076	21,061
Future income tax liability *(Note 9)*	1,303	493
Total liabilities	30,379	21,554
Shareholders' equity		
Capital stock *(Note 4)*	40,105	40,105
Contributed surplus *(Note 4)*	5,521	3,820
Retained earnings	38,165	32,215
Total shareholders' equity	83,791	76,140
Total liabilities and shareholders' equity	114,170	97,694

See accompanying notes

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

($ in thousands, except for per share amounts)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$	$	$	$
Revenue				
Management fees	**24,692**	20,702	**72,152**	64,971
Crystallized performance fees	**719**	152	**915**	2,367
Unrealized and realized gains on proprietary investments	**2,852**	657	**3,087**	3,567
Other income	**827**	520	**4,982**	874
Total revenue	**29,090**	22,031	**81,136**	71,779
Expenses				
Compensation and benefits	**8,049**	6,212	**23,850**	21,025
Trailer fees	**5,099**	4,672	**15,312**	14,092
General and administrative	**2,637**	2,620	**8,222**	8,454
Donations	**173**	285	**802**	861
Amortization	**193**	197	**551**	636
Total expenses	**16,151**	13,986	**48,737**	45,068
Income before income taxes	**12,939**	8,045	**32,399**	26,711
Provision for income taxes *(Note 9)*	**3,340**	2,539	**9,199**	8,194
Net income and comprehensive income	**9,599**	5,506	**23,200**	18,517
Retained earnings, beginning of the period	**32,316**	20,896	**32,215**	37,885
Dividends declared	**(3,750)**	(3,750)	**(17,250)**	(33,750)
Retained earnings, end of the period	**38,165**	22,652	**38,165**	22,652
Basic and diluted earnings per share *(Note 8)*	**$0.06**	$0.04	**$0.15**	$0.12

See accompanying notes

Unaudited Interim Consolidated Statements of Cash Flows

($ in thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the period	9,599	5,506	23,200	18,517
Add (deduct) non-cash items:				
Unrealized and realized gains on proprietary investments	(2,852)	(657)	(3,087)	(3,567)
Stock-based compensation	567	574	1,701	1,722
Amortization	193	197	551	636
Future income taxes	447	240	1,177	101
Other items	(38)	(24)	(138)	(24)
	7,916	5,836	23,404	17,385
Fees receivable	(1,545)	(181)	8,535	10,067
Other assets	(1,151)	(977)	(303)	(1,596)
Accounts payable and accrued liabilities	1,284	1,227	610	(474)
Compensation and employee bonuses payable	2,005	1,013	(622)	(13,761)
Income taxes payable	2,895	(496)	8,028	(13,689)
Cash provided by (used in) operating activities	11,404	6,422	39,652	(2,068)
INVESTING ACTIVITIES				
Purchase of proprietary investments	(22,347)	–	(23,432)	(25,137)
Sale of proprietary investments	2,527	7,185	6,269	14,597
Purchase of fixed assets	(45)	(81)	(109)	(346)
Other long-term assets	(12)	–	(1,370)	–
Cash provided by (used in) investing activities	(19,877)	7,104	(18,642)	(10,886)
FINANCING ACTIVITIES				
Dividends paid	(3,750)	(3,750)	(17,250)	(33,750)
Cash used in financing activities	(3,750)	(3,750)	(17,250)	(33,750)
Net increase (decrease) in cash and cash equivalents during the period	(12,223)	9,776	3,760	(46,704)
Cash and cash equivalents, beginning of the period	64,993	33,408	49,010	89,888
Cash and cash equivalents, end of the period	52,770	43,184	52,770	43,184
Cash and cash equivalents:				
Cash	17,449	11,389	17,449	11,389
Short-term deposits	35,321	31,795	35,321	31,795
	52,770	43,184	52,770	43,184
SUPPLEMENTAL CASH FLOW INFORMATION				
Income taxes paid	–	2,781	–	21,845

See accompanying notes

Sprott Inc.
Notes to the Unaudited Interim Consolidated Financial Statements *For the three and nine months ended September 30, 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 interim 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 interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company, its wholly owned subsidiaries as well as three limited partnerships in which the Company is the sole limited partner. The three limited partnerships are SAM LP, SPW LP and SCLP while the material wholly owned subsidiaries are Sprott Genpar Ltd., SAMGENPAR Ltd., Sprott Power Consulting LP and Sprott Lending Consulting LP ("SLCLP"). All intercompany accounts have been eliminated on consolidation.

Certain information and note disclosures normally included in the annual financial statements have been condensed or excluded. As a result, these unaudited interim consolidated financial statements do not contain all disclosures required for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2009. All material adjustments which, in the opinion of management, are necessary for fair presentation of the results of the interim periods have been reflected in these interim consolidated financial statements. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

Use of estimates

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

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 impairment review at least annually and, if impaired, written down to fair value.

Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board 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 has continued to monitor new standards and amendments to existing IFRS standards and evaluate their impact and will do so through the remainder of this year.

3. Proprietary Investments

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

	September 30, **2010**	*December 31,* 2009
PRECIOUS METAL BULLION		
Gold bullion	**7,533**	6,435
Silver bullion	**4,921**	–
	12,454	6,435
SECURITIES DESIGNATED AS HELD FOR TRADING		
Public equities and share purchase warrants	**17,937**	4,581
Mutual funds and hedge funds	**2,400**	831
	20,337	5,412
LOANS AND RECEIVABLES		
Secured note receivable	**14,450**	14,338
SECURITIES AVAILABLE FOR SALE		
Public equities	**–**	93
Private equities	**1,151**	1,726
	1,151	1,819
Total proprietary investments	**48,392**	28,004

Fair value disclosures

The table below sets forth information about the level within the fair value hierarchy prescribed by Section 3862 at which the Company's securities designated as held for trading are measured at September 30, 2010 ($ in thousands):

	Quoted price in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Total
SECURITIES DESIGNATED AS HELD FOR TRADING			
Public equities	1,390	15,518	16,908
Common share purchase warrants	–	1,029	1,029
Mutual funds	1,866	–	1,866
Hedge funds	–	534	534
Total	3,256	17,081	20,337

Level 1 securities generally include securities traded on major exchanges, including the TSX and TSX Venture Exchange as well as investments in redeemable mutual funds. Level 2 securities include common shares traded in over-the-counter markets, warrants valued using observable inputs and investments in hedge funds. As at September 30, 2010, the Company does not have any financial instruments that are measured at fair value and are classified as Level 3; there were no transfers between levels during the quarter.

As at September 30, 2010, investments in public equities consisted primarily of investments in equities and share purchase warrants of companies in the resource sector. These investments include $15.4 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 SLCLP under a management services agreement. The common shares of Sprott Resource Lending Corp. are restricted from trading for four months from the date of acquisition.

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

Securities classified as loans and receivables consisted of a secured note receivable from a company in the gold sector paying 10% annual interest and maturing in 2014 and is recorded at amortized cost, less impairment, if any. As at September 30, 2010, the fair value of this secured note receivable approximated its carrying value.

Securities 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.

4. Shareholders' Equity

(a) Capital stock and contributed surplus

Capital stock consists of the following:

	Number of shares	Stated value ($ in thousands)
Authorized		
Unlimited common shares, without par value		
Issued		
Balance, December 31, 2008	150,000,000	40,105
Issuance of common shares on exercise of stock options	–	–
Balance, December 31, 2009	150,000,000	40,105
Issuance of common shares on exercise of stock options	–	–
Balance, September 30, 2010	150,000,000	40,105

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

	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 2,500,000 Sprott Inc. stock options over the vesting period	1,701
Balance, September 30, 2010	5,521

(b) Stock option plans

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

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%
As at September 30, 2010	2,500,000				

As at September 30, 2010, of the 2,500,000 option granted, 1,633,333 options were exercisable and 866,667 had not vested.

For the three and nine months ended September 30, 2010, the Company recorded a compensation expense of $0.6 million (2009 – $0.6 million) and $1.7 million (2009 – $1.7 million), respectively, with a corresponding increase to contributed surplus.

(c) Objectives of managing capital

The Company's objectives when managing capital are:

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

The Company's capital is comprised of equity, including capital stock, contributed surplus and retained earnings. SPW LP is a member of IIROC and SAM LP is a registrant of the OSC; as a result, both limited partnerships are required to maintain a minimum level of regulatory capital. To ensure compliance, senior management monitors regulatory and working capital on a regular basis. As at September 30, 2010, SPW LP and SAM LP were in compliance with the capital requirements.

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

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

5. Related Party Transactions

(a) Cadomin Capital Corporation (formerly Sprott Molybdenum Participation Corporation ("Sprott Moly"))

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

(b) Artwork rental

Historically, the Company rented artwork from Mr. Sprott, 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, Mr. Sprott terminated the artwork rental contract with himself as well as Sprott Securities Ltd. As a result, there were no artwork rental fees incurred in the three and nine months ended September 30, 2010. In 2009 SAMI incurred an expense of $nil and $0.3 million for the three and nine months ended September 30, 2009, respectively.

(c) 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 September 30, 2010 the Company only holds one such investment.

(d) Share incentive program

In September 2010, Mr. Sprott personally agreed to fund a share incentive program through his personal holding company ("Holdco") for Mr. Grosskopf, the Company's new Chief Executive Officer and Mr. Kevin Bambrough, the Company's President. The program will provide Mr. Grosskopf with five million common shares of the Company held by Holdco, and Mr. Bambrough with three million common shares of the Company held by Holdco. This arrangement does not contemplate any issuance of common shares from treasury by the Company. As at September 30, 2010, details of this arrangement had not yet been finalized and as a result, there is no impact to the interim consolidated financial statements of the Company.

6. Fixed Assets

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

	September 30, 2010		
	Cost	Accumulated amortization	Net book value
Artwork	1,691	–	1,691
Furniture and equipment	1,751	1,279	472
Computer hardware and software	1,098	1,035	63
Leasehold improvements	3,105	1,476	1,629
	7,645	3,790	3,855

	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

7. 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):

2010	532
2011	2,399
2012	2,399
2013	2,399
	7,729

In July, 2010, the Company amended its existing lease agreement to increase the total area leased thereunder, which resulted in additional commitments for office premises, including operating costs amounting to $136 thousand in 2010 and $815 thousand in each of 2011, 2012 and 2013.

8. Earnings Per Share

For the three and nine months ended September 30, 2010, basic and diluted earnings per common share were $0.06 and $0.15, respectively. For the three and nine months ended September 30, 2009, basic and diluted earnings per common share were $0.04 and $0.12, respectively. Earnings per share is calculated using the weighted average number of shares outstanding during the relevant periods. For both the three and nine months ended September 30, 2010 and September 30, 2009, the weighted average number of shares outstanding was 150,000,000.

9. Income Taxes

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

	Three months ended September 30, 2010	*Nine months ended September 30,* 2010
Income taxes at statutory tax rate (31.25%)	4,043	10,125
Decrease in income taxes resulting from:		
Non-taxable portion of capital gains and other	(703)	(926)
Income tax provision as reported (effective tax rate of 25.81% and 28.39%, respectively)	3,340	9,199

	Three months ended September 30, 2009	*Nine months ended September 30,* 2009
Income taxes at statutory tax rate (33%)	2,655	8,815
Decrease in income taxes resulting from:		
Rate differences and other	(116)	(621)
Income tax provision as reported (effective tax rate of 31.55% and 30.68%, respectively)	2,539	8,194

As at September 30, 2010, the future tax asset in the amount of $0.9 million related entirely to foreign accrual property losses and capital losses. The future tax liability of approximately $1.3 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 September 30, 2010, the Company had approximately $6.7 million of unused capital losses.

10. Other Long-Term Assets

As at September 30, 2010, other long-term assets consist of intangible assets with indefinite useful lives, which are tested for impairment at each reporting period. The intangible assets relate to certain costs incurred to create management services contracts between SAM LP and certain funds managed by SAM LP.

11. Variable Interest Entities ("VIEs")

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.

12. 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 decrease 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 tax, this would have increased income before income taxes by approximately $1.0 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 tax, this would have increased income before income taxes by approximately $0.6 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. There is no interest rate risk that could immediately affect earnings associated with this investment as it is carried at amortized cost and management intends to hold the investment to maturity.

Foreign exchange risk

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

As at September 30, 2010, approximately $13.0 million or 11.4% (December 31, 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 $0.7 million (December 31, 2009 – $0.5 million) of cash, $1.1 million of accounts receivable (December 31, 2009 – $7.6 million) and $0.1 million (December 31, 2009 – $0.2 million) of other assets were denominated in USD. As at September 30, 2010, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant and before income tax, the increase or decrease, respectively, in income before income taxes would have amounted to approximately $0.7 million (December 31, 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 September 30, 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 IIROC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

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

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

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. As at September 30, 2010, the Company had $52.8 million or 46.2% of its total assets in cash and cash equivalents. The majority of current assets reflected on the interim consolidated balance sheets are highly liquid. Approximately $13.8 million or 28.6% 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.

13. 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.

14. 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 amount of losses, if any, is not determinable at this time.

15. Subsequent Events

(a) Dividend

In November 2010, a dividend of $0.03 per common share was declared for the quarter ended September 30, 2010.

(b) Indemnity

In November 2010, certain offshore funds managed by SAM LP reversed accruals related to possible liabilities in relation to which the Company had provided an indemnity. As a result, the Company retracted its indemnification to such offshore funds.

Corporate Information

Corporate Address

Sprott Inc.
Royal Bank Plaza, South Tower
200 Bay Street, Suite 2700, P.O. Box 27
Toronto, Ontario M5J 2J1
T 416.362.7172
TOLL-FREE 866.362.7172
For additional information visit our website:
www.sprottinc.com

Auditors

Ernst & Young LLP
Ernst & Young Tower
P.O. Box 251, 222 Bay Street
Toronto-Dominion Centre
Toronto, Ontario M5K 1J7

Legal Counsel

Heenan Blaikie LLP
Bay Adelaide Centre
333 Bay Street, Suite 2900
P.O. Box 2900
Toronto, Ontario M5H 2T4